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Foreign Trade *and* Shipping

Foreign Trade *and* Shipping

BY THE
AMERICAN MARITIME COUNCIL, INC.
J. E. OTTERSON, *Chairman*

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FOREIGN TRADE AND SHIPPING

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FOREWORD

This study of our foreign trade and shipping has been prepared by the staff of the American Maritime Council.

It undertakes to point out that an increase in our foreign trade is necessary in order to increase our national income, balance our budget, avoid unemployment in the postwar period, and maintain an adequate merchant marine.

Emphasis is here upon the development of our foreign trade rather than upon the expansion of our merchant marine, on the ground that the merchant fleet which we shall require will in the last analysis be determined by the volume of foreign trade we can develop.

The study indicates that we are not properly organized in this country, as regards either our government setup or industry itself, to ensure the orderly expansion of our foreign trade.

With a view to determining the character of organization that we require, we have undertaken to present a study of the British situation that makes clear the all-out national support the British have always given to their foreign trade and shipping. This support has been consistent and continuous over a period of five centuries and will be even greater under the government-planned economy that they now contemplate.

The British study also outlines the manner in which various trade associations are organized and coordinated in England to give full support to their foreign trade and shipping. The Federation of British Industries (F.B.I.) is a coordinating body through which the recommendations and influences of the British trade organizations can be brought to bear upon the foreign trade situation so as to produce a united national effort.

The study of the American situation is along more or less parallel lines and develops the contrast between our own feeble efforts and the driving force of the British.

The proposals of the British "White Paper" are dealt with at some length. The British contemplate a completely

planned national economy under the control of government agencies that will be totalitarian in character and in effect and that will of necessity have a profound influence upon the economies of other nations, particularly as regards their foreign trade, in which field the British occupy so dominant a position.

This marks a departure, at least temporarily, from the traditional British policy of free private enterprise and, however reluctant the British may be to take a step in this direction, it is doubtless a courageous yielding to the necessities of their own economic situation and a recognition of the new order among European nations, who must find a community solution of the economic problems growing out of the war.

Whatever is done in this country should be within the pattern of our democratic political and economic institutions. We must guard against the infiltration of European political and economic concepts and adhere to our faith in the benefits and blessings of private enterprise and initiative.

President Roosevelt reaffirmed this faith in his Chicago address in October, 1944, in which he said,

> I believe in free enterprise—and always have.
>
> I believe in the profit system—and always have.
>
> I believe that private enterprise can give full employment to our people.
>
> I believe in exceptional rewards for innovation, skill and risk-bearing by business.
>
> We shall lift production and price control as soon as they are no longer needed, encouraging private business to produce more of the things to which we're accustomed and also thousands of new things, in ever-increasing volume, under conditions of free and open competition.

We have met the demands of totalitarian war. We have supplied not only our needs but also the needs of our Allies; we have financed not only our own production and efforts

but also part of the production and efforts of other nations. We have done these things and still adhered to our democratic institutions.

We have maintained and retained the initiative, force, and energy of private enterprise. We still have our liberties, both political and economic. We still have good will toward other nations and other peoples. Just as we have lent our energies and wealth to the support of what we believed to be a righteous cause, so are we prepared to lend our wealth and energies to the reconstruction of the world and the preservation of world peace.

However, sympathy with the position of other nations or an appreciation of their need for our help should not blind us to the necessity of looking out for our own interests and of ensuring that the benefits and rewards which accrue to us shall be entirely commensurate with the contribution that we make to reconstruction, rehabilitation, the creation of freer trade among nations, and the development of a greater world prosperity and stability. Neither sympathy nor idealism should obscure the necessity of guarding and improving our own economic security, so essential to the protection of the world, against economic chaos in this period of reconstruction. Whatever we do must be done in a thoroughly practical way and on a sound business basis. We must maintain the strength and integrity of our national wealth whether it be measured in gold, in credit, in resources, in initiative, or in energy. To abandon or neglect in any degree our own interests and so weaken our own structure would be a disservice, not only to ourselves, but to all other nations and to mankind.

We have no time or need for economic panaceas. We must adhere tenaciously to those institutions that are the foundations upon which our national strength has been built. Our effort need be totalitarian only in the sense that we need to direct the total efforts of an inspired individualism among free men to the attainment of a national objective.

Free enterprise is the heritage of free men, without which freedom cannot long exist.

This report and the accompanying foreword were written prior to the national election in England which returned a labor government. The developments since have served merely to confirm the findings and conclusions of this paper; no revision is necessary.

On the American side, President Truman has reaffirmed our national policy in his Executive Order on Reconversion, which contemplates "a swift and orderly transition to a peacetime economy of free, independent private enterprise with full employment and maximum production. . . ."

The study is dedicated to those government agencies and those industrial and trade organizations that are interested in the expansion and development of the foreign trade of the United States and in the creation and maintenance of a strong American merchant marine.

It is hoped that these organizations will find in this study material that will be of value in planning their own work in this field. In particular it is hoped that the National Foreign Trade Council, which has done such splendid work in creating interest and coordinating thought concerning matters relating to our foreign commerce, will accept the recommendations of this report and take the initial steps in creating the organization necessary to coordinate the efforts of American industrial and trade organizations having to do with our foreign commerce.

For the preparation of this report, special credit is due to Dr. A. V. Dye for basic economic studies, to Commander R. D. Weyerbacher for critical analysis and review, to Mr. G. H. Barber for studies in the field of shipping, and particularly to Miss G. L. Waite for valuable work in the field of historical research and writing.

New York City,
October, 1945.

J. E. Otterson.

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Introduction

"When we see that in three or four years the United States has in sober fact become the greatest military, naval and air power in the world—that I say to you in this time of war is itself a subject for profound thanksgiving." This observation was made by Winston Churchill in the course of his Thanksgiving Day address in London on Nov. 23, 1944.

Whether in sober fact the preeminent position of the United States in the world today shall be a "subject for profound thanksgiving" in time of peace as well as in war depends upon the manner in which we assume those responsibilities that are naturally laid upon "the greatest military, naval and air power in the world."

After the First World War we sought to escape our destiny. We were inclined to political and economic isolation. We left to other nations the solution of those problems that could not be solved without us. We are too large an entity in world affairs to be ignored or excluded either by our own act or by the decision of others. The interdependence of all nations requires that we play our part. The policies after the First World War led to another more devastating and all-embracing war; the policies after the Second World War must be shaped to protect the world and mankind against future wars.

First and foremost among these policies is the necessity for greater and freer interchange among nations. The surpluses of the one must serve the needs of the other. As part of our participation in world affairs, we are under the necessity of promoting and encouraging world trade

and of building up our own foreign commerce, both exports and imports, as contributing factors in the solution of world economic and political problems. In this study we are seeking not to solve these larger political problems but rather to address ourselves to the narrower problems of our own economic needs and, on this account, to the necessity for increasing our foreign trade.

From the standpoint of our own peacetime economy we shall be confronted with the simple fact that we can produce more than we can consume. We are in danger of having unemployment as a permanent part of our national economy. The stimulated and improved production methods of the war period have further increased our productive capacity over prewar levels. The depression years preceding the Second World War made it clear that with a national income of 80 billion dollars we shall have 10 to 12 million unemployed. We need a national income of 130 to 140 billion dollars to ensure prosperity and pay interest on our national debt.

Such a national income can be achieved only through increased domestic consumption or through increased sales of our products abroad.

Increased domestic consumption means raising our standard of living still further. We are already out of balance with the rest of the world.

Increased foreign trade is an economic necessity essential to the building up of our national income to prosperity levels. The reasons for increased foreign trade are as compelling for this country as for any other nation in the world not excepting the British Empire. We shall have need to seek and hold every dollar of income that is available to us.

We shall end this war owning more than one-half of the world's tonnage and with a merchant fleet twice the size of that of Britain. This is in no sense a measure of our

position as a maritime nation. Ships without foreign commerce are merely a burden and a liability. They are merely the means by which commerce is carried on. Foreign trade is of the essence. We must develop those forces that will stimulate and increase our foreign trade and create the demand for the merchandise that the ships shall carry.

The size of a merchant marine "sufficient to carry a substantial proportion of our foreign commerce" will obviously depend upon the volume and character of our foreign commerce and the proportion carried in American bottoms.

Various suggestions have been made as to the size of our postwar merchant fleet, ranging from 15 to 20 million tons compared with the prewar American merchant fleet of 10 million tons and the prewar British merchant fleet of 19 million tons.

If we assume that our postwar fleet engaged in domestic commerce is the same as before the war and that we shall carry 50 per cent of our foreign commerce in American bottoms, then a fleet of 15 million tons under the operating conditions and dollar value of 1929 trade means that our foreign commerce would be 2.4 times its prewar level; a fleet of 20 million tons means foreign commerce equal to 3.6 times prewar. The 1929 dollar value of our foreign trade was 3 times that of 1938.

The British have declared that they must increase their foreign commerce by 50 per cent over its prewar level. Other nations have like ambitions. Russia presents a new, vital, and aggressive, if unknown, factor.

The competition for world trade will be keen.

As confident Americans we are inclined to believe that any desirable objective is within our grasp. When it comes to foreign commerce we should not be too sure. We displayed a little Yankee trading instinct for a period

of 50 to 60 years of our short national history, but we have lost our keenness through the pursuit of domestic riches. We are not today a great maritime people or by instinct or interest active or keen world traders.

Public opinion in America has not been developed to the point where it accepts the necessity of an increase in foreign trade as a part of our national economy. Our industrial, commercial, financial, and political structure is built around considerations of domestic economy and not around considerations of foreign policy or foreign trade. We must balance the emphasis.

We have a higher wage level than that of any other nation in the world. We are dependent upon mass production to enable us to compete in the markets of the world. We must search these markets to determine where and how American goods can be sold in large quantities. We must cultivate the taste and need of foreign countries for American-made products adapted to their uses.

At the same time we must increase our imports in order that nations to whom we sell can pay for the goods they buy. We must cultivate at home the taste and need for foreign products. Other nations require the economic assistance of increased American consumption of their products; we must assist their purposes in order to further our own.

We shall find that many nations to which we desire to sell cannot produce and sell to us sufficient merchandise to pay for their purchases from us. We shall have to develop foreign credits and investments in foreign countries sufficient to furnish them with the capital and credit necessary to their trade with us.

The development of ourselves as a great foreign trading nation involves radical and extensive changes in our national philosophy and psychology and in our economic, financial, and political structure. We shall have to change,

strengthen, consolidate, and coordinate government agencies dealing with foreign trade and bring about a cooperative and coordinated effort upon the part of American commercial interests seeking foreign trade both among themselves and in relation to the government.

The British are the greatest nation of world traders and the greatest maritime nation in the world and have been for centuries. Since they have developed successful methods of carrying on foreign trade on an economic basis and are maintaining a successful merchant marine, it is desirable and necessary that we examine the organization, methods, and procedures by which the British have accomplished this result; we must in turn examine our own industrial, economic, and political structure in comparison to determine its suitability and adaptability to the carrying on of foreign commerce in sufficient volume to absorb our overproduction and to meet our economic needs.

In undertaking such a study we are confronted throughout with the necessity of dealing with the question of subsidies. It might be well to define in advance what we mean by subsidies.

Subsidy is "pecuniary aid directly granted by government to an individual or commercial enterprise deemed productive of public benefit."[1] This is the narrow definition of the word *subsidy*, a definition that rules out any but pecuniary aid.

More broadly, *subsidy* is defined as follows:

> . . aid; assistance; any gift of money or property made by one person to another by way of financial aid. A grant of funds or property from a government, as of the state or a municipal corporation, to a private person or company to assist in the establishment or support of an enterprise deemed advantageous to the public; a subvention. In practice subsidies are chiefly granted in aid of transportation enterprises, as to ship, canal,

[1] Funk & Wagnalls *Standard Dictionary*, 1930 ed.

air-transport, or railroad companies. . . . A subsidy may be a simple gift or may consist in the payment of an amount in excess of the usual charges for any service, as in carrying the mails, or of funds to aid in establishing or maintaining a service or equipment larger or more powerful than the state of trade would warrant, as the building and keeping in service of vessels designed for use as cruisers and auxiliaries in war. *Subsidy* is often inexactly used to designate an entire payment for services, as for carrying mail, which properly speaking includes compensation for actual services and a subsidy proper, consisting in the sum paid in excess of the compensation.[1]

According to this broader definition subsidy may be either money or property, aid or assistance, or a subvention.

Property is defined as "any valuable right or interest considered primarily as a source or element of wealth . . . anything, or those things collectively, in or to which a man has a right protected by law . . . that to which a person has a legal title. . . ."[2]

In the development of the great nations of the world the granting of a legal title to certain rights and the amassing of working capital and wealth that came from the possession of those rights were the factors that built the maritime power of the nation. To catch the true significance of the part subsidies have played in the growth of mercantile marines we must accept the broader definition of the word and think in terms of any form of aid, not only that which flows from the government, but that which results from the operation and functioning of national policies and practices.

The acceptance of the broad definition is essential to a study of the aids enjoyed by British foreign trade and shipping throughout the centuries of their development. The British countenance and encourage indirect aids and

[1] Webster's *New International Dictionary*, 2d ed., 1942.
[2] *Ibid.*

monopolistic advantage sometimes difficult to discover and segregate. Whatever is in the interest of British foreign trade and shipping is accepted as in the interest of the nation and the Empire, so that the maritime industry is not regarded as receiving favor as a special industry. Foreign trade to the British is not merely one of their industries to be balanced against another—it is the cosmos of all their industries. Politically it is the current of world affairs coursing in British veins; economically it is the ebb and flow of world tides bringing wealth to British shores.

We in America are inclined to think of subsidy in its narrower sense, *i.e.*, governmental financial aid. To treat it indirectly or to have it hidden in some benefit derived from property rights is likely to lead to a charge of indirection or a suspicion of concealment. We like to have a precise measure of our public favors. To us foreign trade and shipping are just another industry and not a service to all industry.

A study of our own situation in comparison with the British leads to the conclusion that we must avail ourselves of all possible aids to our foreign trade and shipping under whatever name. We must accept foreign trade as an essential to our national welfare and anything in the interest of foreign trade as being in the national interest and in turn benefiting all other business and industry by expanding our economy to prosperity levels. If we must refer to subsidy as a direct grant, it is preferable to think of it as a subsidy to our foreign trade rather than to our merchant marine. The latter is merely the instrument or the vehicle in the transaction and not the principal. Furthermore, it is only one of the instruments. Any effort to increase our foreign trade must contemplate the use of all the facilities of transportation and communication and the support of informed public opinion.

The British have already voiced objection to our granting

subsidies and have warned us as to the danger of a subsidy race among nations. In considering this question we should not overlook the indirect aids that have been extended to British foreign trade and shipping that in reality are subsidies and that are responsible for the growth of the British merchant marine and for its dominant position in the world of trade today.

If we can organize government and industry in this country so as to extend to our foreign trade and shipping the benefits and aids that are present in the British system by reason of the national devotion to the cause of shipping and the organization and facilities available to British shipping throughout the world through the British established and entrenched position, we shall then have little need for a direct financial subsidy. The benefits that accrue to shipping from favorable broad national policies and practices far outweigh the measured benefits of a precisely determined subsidy.

A knowledge of the history of the development of British foreign trade and shipping and an understanding of the forces that have contributed to its progressive growth and its dominant position today are so essential to the solution of our own problems that we have undertaken to deal fully with them. In doing so we have no desire to be critical of British conduct or policy in any of the matters under discussion. On the contrary, we point out that, whatever the British have done, it has been exceedingly effective in accomplishing their objectives. Their policies have been practical and realistic. Our interest grows out of the fact that they have done so much and we have done so little. There is, therefore, in the study of the British situation both example and inspiration for us in doing the things that need to be done. Whether we decide to do all that the British have done or whether their program can be adapted to our American pattern, we must recognize that

whatever plan we adopt must include effective means for competing on even terms in seeking our appropriate share of the trade of the world.

The notes that follow are arranged under these headings:

British Policies of State in Support of Foreign Trade and Shipping.

British International Trade Policies in Relation to Other Nations.

British Industrial Policy Affecting Foreign Trade and Shipping.

British Industrial and Commercial Organizations: Purposes, Policies, and Activities.

Relationship between Government and Business in Great Britain.

Summary of the British Position.

Postwar Outlook and Planning for British Foreign Trade and Shipping.

Following the consideration of the British scene, we have undertaken to review the American scene in much the same manner by way of comparison and contrast, to stand in sober contemplation of the fact that we are the greatest military, naval, and air power in the world, and to arrive at certain conclusions as to those things that are essential to the raising of our national economy to prosperity levels and to the development of our position as a great creditor nation and a great maritime nation.

CHAPTER I

BRITISH POLICIES OF STATE IN SUPPORT OF FOREIGN TRADE AND SHIPPING

From the earliest beginnings of English trade and commerce we find almost uninterrupted interest and tangible support from the Crown.

Richard Coeur de Lion, while on the Crusades to the Holy Land, came in contact with the comparatively well developed shipping and navigation of the Mediterranean and brought back to England with him the navigation laws and regulations that he found in force there. He ordered that these be observed in English waters.

By the time of Edward III the fishing fleets of England had become so important a means of training men for the merchant and fighting vessels of the realm that fishermen were forbidden to give up their trade; Edward III realized the importance of having trained seamen among the citizenry of the nation. The challenge of the vessels of other maritime nations may have been the basis for this order, since "Right is Might" was the rule of the high seas at that time.

Legislation is merely the expression of the nation's contemporary fears, and in the long series of maritime Acts from the fourteenth century onwards we can see the national nervousness of the time lest the foreigner should dominate the success of our Mercantile Marine. We have already seen Edward I styling himself "Sovereign of the Seas." Then in the last years of the fourteenth century we have what was the first of the Navigation

Acts. The basic aim was to exclude the ships, seamen and trade of the foreigner and to encourage those of our country. . . . [1]

This first of the Navigation Acts was passed in 1381; it and subsequent legislation were the "product of an age which assumed that anything could be wrought by king's decree, and that the raising of obstacles and the destruction of a competitor's trade were the best means of extending one's own. The training of British seamen at a time when every commercial vessel was a potential war vessel was an important, if not the most important, factor in the British policy."[2]

One of the most important results of the revolution of 1485 was the revival of the power of the Crown. This revival "carried with it a growth of patriotic feeling, an increase of security and consequently of trade and wealth, and an ambition for maritime power as the most effective means of national defence. . . . "[3]

From the time of Henry VII we find a policy of granting special legal title to valuable interests that were considered primarily as a source or element of wealth—subsidies.

By the Navigation Acts of 1485 and 1488, under Henry VII, English vessels were given the exclusive right of importation of Gascony wines. Further, shipbuilders were granted a bounty on all tonnage built during the reign of Henry VII. Since it is commonly believed that the substantial balance in Henry's exchequer at the time of his death was the result of his ventures in the commerce of the day, he had personal as well as national interest in

[1] CHATTERTON, E. KEBLE, *The Mercantile Marine*, p. 65, William Heinemann, Ltd., 1923.

[2] SAUGSTAD, JESSE E., Shipping and Shipbuilding Subsidies, 1932 *U.S. Dept. of Commerce Trade Promotion Series* No. 129, U.S. Government Printing Office, p. 8 (from Palgrave, *Dictionary of Political Economy*, Vol. II, p. 361).

[3] *The Cambridge History of the British Empire*, Vol. I—The Old Empire to 1783, p. 22, General Editors, J. Holland Rose, A. P. Newton, E. A. Benians, Cambridge University Press, 1929.

securing the growth of the English mercantile marine with the aid of legislated monopolies and the granting of bounties.

In 1496, John Cabot and his followers were given a charter under which they were to possess regions in the name of the King of England; they were also "to enjoy the privilege of exclusive resort and traffic to all places they might discover, reserving one-fifth of the clear profit of the enterprise to the crown."[1]

Under Henry VIII (1509–1547) the English Navy was organized and built, and dockyards were established at Woolwich, Erith, Deptford, and Portsmouth. Commercial venturers were encouraged to continue and enlarge their efforts.

One need not recount the famed deeds of the adventurers of the time of Queen Elizabeth. Among the gifts of the Good Queen Bess to the more ambitious among her subjects was that of the "Jesus of Lubeck," a 700-ton vessel "very fully armed," to John Hawkins, going out to engage in the slave trade in Africa; to David Cartel she gave the "Minion," to be used in the same kind of expedition. In return for these subsidies the Queen shared in the profits of the trade, as did also members of the Council of State who privately had invested in the expeditions.

Probably the most important single monopoly ever granted was that given to the East India Company under the charter issued in 1600, by which many powers and privileges were allowed by the Crown. Chief among these powers and privileges were those of "punishing offenders either in body or purse. . . exports were not subjected to any duties for the four first voyages, important indulgences were granted in paying the duties on imports. . . "[2] And the East India Trading Company was given the legal

[1] LINDSAY, W. S., *History of Merchant Shipping and Ancient Commerce*, Vol. II, p. 55, Sampson Low, Marston, Low, and Searle, 1876.

[2] *Ibid.*, p. 155.

title to the exclusive right of trade between England and East India, or the Far East—doubtless the most important subsidy ever granted by an English sovereign.

In return for the liberal terms of the charter, the East India Company's ships and men rendered gallant and invaluable service to the building of the Empire and the crushing of competitors. From the time in 1601 when "the first fleet, under Lancaster, took possession of St. Helena, entered into a treaty with the King of Acheen, settled a factory at Bantam, and captured a valuable carrick of nine hundred tons burthen" until 1810, when the "Company's ships and seamen were employed at the taking of the Isle of France," the record of the Company is one of constant battles on the high seas, in ports, wherever its ships met up with those of the Portuguese, the Dutch, the Spaniards, the French, or the Americans (1775–1783).

From this grant of rights, which cost the Crown nothing, the Crown received not only a percentage of any profits accrued (one-fifth was the usual percentage) but also the title to all territories claimed by the East India Company; more important than this title, however, was the addition to the English mercantile marine of the heavily armed, fighting East India merchantmen, by means of which the Company protected its commerce and made good its claims to territories along its route and in the Far East. Thus the vast importance of this subsidy lay in the added sea power and in the extension of Empire resulting from the conferring on this joint-stock company of legal title to the trade with the Far East.

That a venture begun as primarily commercial might in time become purely political is well evidenced in the case of the East India Company; in return for special grants and privileges business men became instruments of the Government—they became the Government in distant lands, as in the East India Company's domain.

From April 1834, when the Company's trade with China ceased, its functions have been wholly political, and the Directors, though retaining their patronage in the civil and military services, became little more than a council to advise and assist the president of the Board of Control. In 1858 they were deprived by Parliament of all their power and privileges, and ceased to exist as a governing body, the whole of the British dominion in India being then placed under a Secretary of State in Council for India, and its military and civil services merged with those of the United Kingdom.[1]

The East India Company is a particularly dramatic illustration of the type of subsidy—"a gift of property" and "a valuable right protected by law"—granted by the Crown to Englishmen and of the returns to the Crown and to the "national interests" of Great Britain from those subsidies. We need only mention some of the other similar trading companies—the Muscovy, the Levant, the Hudson's Bay, the Virginia, the Massachusetts Bay, the South Sea, among others—to get some idea of the extent to which this method of building commerce and Empire was followed by the British from the sixteenth century on.

Navigation Acts and Policy to Era of Steam Shipping. While the charters granted to the trading companies constituted grants to the Englishmen who made up the personnel of the joint-stock companies, by the passage of the Navigation Acts the entire British carrying trade received one of the most far-reaching aids ever granted to any commercial interest.

The Navigation Acts of 1381, 1485, and 1488 have been referred to above; the Act of 1540 introduced the principle of discriminating duties in favor of those who used English shipping. The Navigation Acts of 1646, 1650, 1651, 1660,

[1] *Ibid.*, p. 483.

and 1663 carried forward the policies established in the earlier acts of the fifteenth and the sixteenth centuries.

The seventeenth century was the crisis in the career of the Mercantile Marine, for it was struggling for its very life amid many dangers, but it emerged with an independence and character of its own. . . . Charles I was determined to compel the Dutch to acknowledge the English claim to the dominion of the seas. . . .

We can well understand the irritation which this line of action caused so great a maritime power as the Dutch. Great sea pioneers they certainly were. . . . In 1651 came the celebrated English Navigation Act, which prohibited the importation of goods into England except in English ships, or in the ships of the country producing the goods. This was quite obviously aimed at the great Dutch seacarriers.[1]

In 1652 the first of three Anglo-Dutch wars broke out; disputes over the herring fisheries were the "indirect means of giving the merchant ships their unique opportunity. Holland's carrying trade fell into our hands, prosperity came to our country, the sailing ships of our nation penetrated everywhere. . . . "[2]

The Navigation Acts established and maintained as long as necessary a complete monopoly for English vessels first in the carrying trade of England and later in the major portion of the world's trade. The one small exception to this monopoly was that produce or manufactured goods needed by England for home consumption or for reexport could be carried by the ships of the producing nations from their ports to English ports. Since countries that were important producers of raw materials, farm produce, and manufactured goods were, generally speaking, not great maritime nations, this exception cost British carriers very little loss in traffic.

[1] CHATTERTON, *op. cit.*, pp. 66 and 67.
[2] *Ibid.*, p. 68.

The outcome of the attention devoted to maritime affairs may be seen in the Navigation Acts of 1650 and 1651. The former has not until recent times received the consideration its importance demands, chiefly because its true intention is not apparent on a cursory reading. . . . Ostensibly, the Act is an ephemeral measure of emergency against a set of rebels. . . . Yet it embodies an affirmation of three separate doctrines or policies, all novel or hitherto unaccepted, and it contains no provision that its validity shall come to an end with the rebellion which has evoked it. The three principles are: the doctrine . . . that Parliament has supreme legislative power over the colonies; the absolute prohibition to foreign shipping to trade, not merely in the rebellious, but in all the colonies; and the nullification of all proprietary or chartered company rights at the discretion of the Council of State. All this is hung upon the peg of a rebellion in four colonies. . . . Surely there was never a thinner excuse for permanently closing the colonial trade of a substantial empire than that it was done to hinder the transit of disaffected persons. . . .

Encouraged, no doubt, by the absence of any protest from the foreigners affected . . . the Commonwealth statesmen proceeded after a year to a further measure, the Navigation Act of 1651. The preamble . . . says simply: "For the increase of the shipping and encouragement of the navigation of this nation, which under the good providence and protection of God, is so great a means of the welfare and safety of this Commonwealth, be it enacted," etc. The provisions are: no goods from Asia, Africa or America to be brought into England, Ireland or the Plantations, save in English (including Irish and colonial) ships, the majority of the members of each crew being English; no goods from Europe to be brought into England, Ireland or the Plantations save in English ships or foreign ships of that country "of which the said goods are the growth, production or manufacture"; foreign goods brought in by English ships to be brought only from the place of origin, as above defined; salt fish, fish oil and whalebone to be brought in solely in English ships; the above fish, etc., to be exported from English territory solely in English ships; and the trade from one port to another "of this Commonwealth"

to be reserved solely to English ships. Exceptions are allowed as follows: English ships to be permitted to bring from countries in the East Indies and the Levant goods which have not been produced in those countries; English ships to be permitted to bring from Spain and Portugal goods produced in the colonies of those countries; and lastly, English ships may bring silks of Italian origin from the ports of the Dutch and Spanish Netherlands. . . . [1]

This was a defense measure "to hinder the transit of disaffected persons"; laws that strengthened the English defenses, that centered in ships, seamen, and seamanship, strengthened the English mercantile marine, for the fighting member of the crew of a Royal Navy vessel today was the efficient and, if need be, the fighting member of a merchant vessel's crew tomorrow. The strength of British defenses has grown hand in hand with the strength of the British mercantile marine; therefore, this was also a measure for the strengthening of the British mercantile marine. Commercial carriers were granted a monopoly of, a vested interest in, a legal right to the carrying trade of the British Empire—as a means to an end, yes, but the guarantee of business was an effective subsidy for the enlargement of the merchant marine.

Those members of Parliament who felt that the policies established in the Commonwealth Navigation Acts (1650 and 51) should be continued under the Restoration

. . . wished, first of all, to restate more emphatically than before the essential features of that Act, and thereby to ensure the promotion of English shipping and seamanship and to secure for England complete control of her own carrying trade. In the second place, they wished to utilize the colonies as a source of such commodities as England needed for her own consumption and so to rectify, if possible, an unfavourable balance of trade with certain parts of Europe and the East. In the third place, they

[1] *Cambridge History*, Vol. I, pp. 215*ff.*

wished to protect British mercantile interests and to increase the customs revenues by making England the staple through which all manufactured goods that were taken to the Plantations would have to pass. These objects were attained in two important measures, one passed by the Convention Parliament in 1660 and the other by the Cavalier Parliament in 1663. Certain supplemental measures of 1662, 1671, and 1673 added explanations and filled in gaps, but in no way altered the main features. Behind these acts were merchants and promoters without official position . . . office holders . . . and statesmen of the first rank and members of the royal family. . . . [1]

An Order in Council, Oct. 2, 1721, forbade colonial ships to carry foreign commodities direct to Europe, East India ships from trading directly with the Plantations, and Spanish ships from American ports from trading with the British Plantations. By these same Acts and Orders in Council, London began her career as the great entrepôt city of the world—"foreign or manufactured goods had to be unladen in one or other of her ports and there reladen as if they were English commodities."

In 1771, a bounty of 30s a ton for 7 years was granted to all decked vessels of from 20 to 80 tons, provided they were of British origin and ownership and were engaged in herring fishing.

A fact frequently overlooked is that, up to the repeal of the Navigation Acts, 1849, shipbuilding in Great Britain enjoyed complete protection against foreign builders, for British shippers were required to use ships built in the United Kingdom or the Plantations if they were to register under the British flag and to enjoy the protection of the British Navy and the monopoly of the carrying trade.

In the era of the sailing ships, Great Britain had built up a powerful Navy and a numerous and great mercantile marine; in the era of steam shipping she was to secure an

[1] *Ibid.*, pp. 270–271.

early lead and achieve almost complete dominance in this field. By what means was this achieved?

Policies in Era of Steam Shipping. In the history of this early period the term *subsidy* has been used in its broadest sense to cover not only direct grants of aid in money or in gifts but also the bestowal by the Crown of monopoly rights in trade and exploitation, the assignment to British carriers by Parliament (the Navigation Acts) of exclusive right in British and colonial trade, all the devices used to bring the British mercantile marine to a position of supremacy in the carrying trade of the world. International wars that reduced or eliminated foreign competition were in a very broad sense subsidies or aids to British shipping. Britain's foreign policy has always been one of full and complete support of the commercial and trading interests of British citizens. This continued policy gave effective support in the new field of steam shipping.

> The term "subsidy" is a recognized part of the British fiscal system and as such represents an historic principle. Thus, so far as shipping services are concerned, sessional papers of the British Parliament, committee reports, treasury minutes, and reports of the British Postmaster General, as well as ocean mail contracts themselves, refer to the fixed annual payment for ocean mail services under contract as "subsidy." Noncontract services on a weight basis are not so described. . . . [1]

During the first experimentations with steam-propelled ships British private capital was either unwilling or unable to enter the field; industry was providing a profitable return and was eager for all available capital. The British admiralty, realizing the importance of any new developments in the field of ocean transport, was the "pioneer founder of steamship lines in 1822. . . . By 1838 the government was able to hand some of the work over to private firms

[1] SAUGSTAD, *op. cit.*, p. 10.

and the first regular transatlantic line, the result of the British mail contract, was really a subsidized line. . . ."[1]

During the years 1837–1841 the admiralty let mail contracts covering the three most important international commerce areas, contracts that were strong subsidies backed by the unwavering support of the admiralty and the British government.

The first of these contracts was with the Peninsular and Oriental Steam Navigation Company, which began in 1837 a mail-packet service from London to Lisbon and Gibraltar, later extending the service to Malta and Alexandria. The company gave the same service to India, in 1842 by way of the Cape of Good Hope, from 1844 until the opening of the Suez Canal in 1869 by way of Alexandria, overland to Suez, then to Ceylon, Calcutta, and China; in 1852 a branch line was opened from Singapore to Australia. The Suez to Bombay service was absorbed in 1854; prior to that time the East India Company gave that service.

The British government advertised, October, 1838, for bids for a fortnightly steam service from Liverpool to the United States via Halifax. The bid of the British and North American Royal Mail Steam Packet Company, later the Cunard Steamship Company, at about $15,000 per voyage, was accepted, and "on the 4th of July, 1840, the *Brittania* . . . sailed under this contract. . . . Up to 1850 the steamer certainly could not have held its own, without the aid of the subsidy. The decade 1850–1860 witnessed the real establishment of an economically self-sustaining ocean steamship line traffic on the Atlantic."[2]

In 1846 the sailings were increased to a weekly schedule, and thus a second commercial route, the very important

[1] SMITH, J. RUSSELL, *The Ocean Carrier*, p. 121, *Railroad Gazette* and G. P. Putnam's Sons, 1908.

[2] *Ibid*, pp. 120*ff*.

North Atlantic route, was provided regular service by a company receiving subsidies from the British government in the form of mail contracts.

Mail contracts for the third leading commercial route, between England and the West Indies, were let in 1840 to the Royal Mail Steam Packet Company, with sailings twice a month "from British Channel ports to Barbados by way of Jamaica and Cuba to Mobile, with branch services to Tampico and Vera Cruz and from Habana to New York and Halifax. . . . "[1] Services of this line were later extended to South America.

Under the contract with the admiralty

> 14 steam vessels and 4 sailing vessels were to be constructed under naval inspection and to be capable of mounting the largest guns then used in the British Navy. The contract specified that vessel equipment was to be kept abreast of developments during the life of the contract. . . . In 1852 . . . a speed requirement of 9 knots. . . . In 1864 . . . speed was increased to 10½ knots. In 1868 came the change from paddle-wheel to screw-propeller propulsion.[2]

This contract illustrates a relationship that strikes forcibly into the mind as one studies the development of the British mercantile marine: subsidies and special privileges were granted by the Crown, by the Government, by Parliament—but always the recipient of these special favors and grants assumed a responsibility for rendering return services to the Crown, the Government, the admiralty, and the national interests. Throughout, there has been a remarkable identification of personal or commercial and national interests, sometimes with the Government or the admiralty leading and making requirements of individuals and companies, but often with individuals and

[1] Hearings on H.R. 7521, pp. 217 and 218.

[2] *Ibid.*, pp. 217 and 218. For further details of contracts and payments see Appendix A.

companies going into new areas, forcing concessions, then forcing a frequently reluctant government to accept sovereignty over territory and thereby protect the commercial interests in their foothold. One British historian puts it thus: "But where missionaries and traders had gone before, governments were constrained to follow."[1]

There can be no doubt that the three companies that initiated the mail-contract services for the admiralty benefited from the liberal terms of the contracts—these three companies have been outstanding in the commercial history of the British Empire since their charterings. But they and the companies organized to carry to other parts of the world, in return, have rendered valiant service to the admiralty and to the development of British steamshipping services as well as to commercial interests.

The table on page 23 gives some idea of the extent to which the British were able to build up a strong lead on other countries in the development of steam shipping.

In 1850, three other countries had small tonnages of steam vessels, while the British had 187,600 tons.

This means that it was in this period [1850–1880] that Britain made her supremacy in shipping absolute and apparently unassailable: she owned nearly half of the shipping on all the seas of the world. There were two main reasons for this triumph. One was the substitution of iron and steel for wooden ships, and of steam for sails. Britain had been handicapped in the construction of wooden ships by the fact that she had to import most of the timber she used; whereas she had every advantage in the construction of steel ships, and an abundant supply of the best steam coal. The other reason was that, since she had adopted Free Trade, the merchandise of all the world poured into her open harbours; she had become the central entrepot as well as the central workshop of the world. Moreover she did most of the

[1] LUCAS, SIR CHARLES, *The British Empire*, p. 216, Henry Holt and Company, Inc., 1924.

world's carrying trade; her ten thousand ships were to be seen on every sea and in every port. For these services she was paid by a tribute of goods from every land; and the growing excess of her imports over her exports represented in part the price of these services, and in part the interest on the immense capital she had invested abroad, both in her own dominions and in foreign lands.[1]

STEAM SHIPPING
(Thousands of Tons Net)

Country	1850	1860	1870	1880
British Empire:				
United Kingdom	168.5	454.3	1,112.9	2,723.5
Dominions and colonies	19.1	45.8	89.2	225.8
Total	187.6	500.1	1,202.1	2,949.3
Foreign:				
Russia	.....	.....	.....	89.0
Norway	.....	.....	13.7	58.1
Sweden	.....	.....	.....	81.0
Denmark	.....	.....	10.5	52.0
Germany	.....	.....	82.0	215.8
Holland	2.7	10.1	19.5	64.4
France	13.9	68.0	154.4	277.8
Spain	.....	.....	.....	146.1
Italy	.....	.....	32.1	77.0
Austria-Hungary	.....	.....	50.0	64.0
Greece	.....	.....	5.4	
United States—steam vessels registered for oversea (foreign) trade only	28.1	60.8	120.3	91.6
Japan	.....	.....	.....	41.2*

* "Net Tonnage of the Steam Vessels belonging to the Merchant Navies of the Principal Maritime Countries of the world at the end of certain years from 1850 to 1910, and on July 30th, 1914." Taken from Appendix D, p. 138, of the Final Report of Departmental Committee on Shipping and Shipbuilding Industries, Board of Trade, 1918 (Cd. 9092).

[1] MUIR, RAMSEY, *A Short History of the British Commonwealth*, Vol. II—The Modern Commonwealth, p. 576, George Philip & Son, Ltd., 6th ed., 1937.

The general subsidies granted through several hundred years of consistent support of the British mercantile marine were paying handsome returns to the Island Kingdom.

1880 *to the First World War.* The preceding table, showing the size of the steamship tonnage of the leading maritime countries from 1850 to 1880, reveals the rising competition by 1880. In 1850 maritime countries of the world, aside from Britain and her colonies, had 44,700 tons of steam shipping, 24 per cent of the British 187,600 tons; by 1880 the other maritime nations had increased their tonnage to 1,257,000, 43 per cent of the 2,949,300 tons of the British mercantile marine. How did the British answer this increasing threat to their supremacy?

One answer was an interesting and significant new development that continued the type of indirect subsidy that had been so important to the British mercantile marine—shipping conferences with the system of deferred rebates.

For a shipping conference we find the following definitions:

> A Shipping "Ring" or "Conference" is a combination more or less close of Shipping Companies formed for the purpose of regulating or restricting competition in the carrying trade on a given trade route or routes. . . .
>
> The main objects with which a Conference is formed are two. It is formed primarily to regulate competition between the Companies with a view to maintaining regular rates of freight. . . .
>
> The second object is to concert measures to meet the competition of shipowners outside the Conference. . . . [1]

In August, 1875, the Calcutta Conference, the first of the shipping conferences, was formed; conferences for

[1] Royal Commission on Shipping Rings, The Report, printed for His Majesty's Stationery Office, by Darling & Son, Ltd., 1909 (Cd. 4668), Vol. I, Part II, pp. 9*ff.*, paragraphs 20, 22, and 23.

other areas of trade were organized as follows: China—1879, Australia—1884, South Africa—1886, West Africa—1895, Northern Brazil—1895, Plata River and Southern Brazil—1896, and the west coast of South America—1904.

If an organization such as the shipping conference is to "regulate or restrict" competition, it must have an effective weapon for use against competitors; the weapon which appeared was the system of deferred rebates.

. . . the power of a Conference is exercised directly on the shippers by means of a "rebate" system, which operates partly as a bribe, partly as a menace, inducing shippers to do business exclusively with members of the Conference. The system appears to have begun in the China trade, and the following circulars illustrate its working as early as 1884:—

"To those exporters who confine their shipments of tea and general cargo from China to Europe (not including the Mediterranean and Black Sea ports) to the Peninsular and Oriental Steam Navigation Company's, Messageries Maritime Company's, Ocean Steamship Company's, Glen, Castle, Shire, and Ben lines, and to the Steamships Oopack and Ningchow, we shall be happy to allow a rebate of 5 per cent. on the freight charged." Another circular issued by the same Conference in 1885 states that "shipments for London by non-Conference steamers, at any of the ports in China or Hong-Kong, will exclude the firm making such shipment from participation in the return during the whole six-monthly period within which they have been made, even although the firm elsewhere may have given exclusive support to the Conference lines." The object and effect of this method is to confine traffic to Conference lines with agreed rates. . . . [1]

The usual procedure is that a shipping company issues a notice to shippers as follows:

. . . if at the end of a certain period (usually four or six months) they have not shipped goods by any vessel other than those

[1] Hobson, John A., *The Evolution of Modern Capitalism*, pp. 175 and 176, Charles Scribner's Sons, new ed., 1916.

despatched by members of the Conference, they will be credited with a sum equivalent to a certain part (usually 10 per cent.) of the aggregate freights paid on their shipments during that period, and that this sum will be paid over to them, if at the end of a further period, (usually four or six months), they have continued to confine their shipments to vessels belonging to members of the Conference. The sum so paid is known as a deferred rebate. . . . If during any period a shipper sends any quantity of goods, however small, by a vessel other than those despatched by the Conference Lines, he becomes disentitled to rebates on any of his shipments by Conference vessels during that period and the preceding one.[1]

Testimony before the Royal Commission on Shipping Rings stated that large sums were involved, sometimes as much as £6,000; deferred rebates have proved to be an effective weapon for securing the loyalty of shippers. In addition to the loss of the rebates "disloyal" shippers sometimes were charged higher freight rates than "loyal" shippers paid. The Majority Report of the Royal Commission says, "To sum up, then, we are of opinion:—(1) That a Shipping Conference making use of the system of deferred rebates does possess, so far as the shipper of general merchandise is concerned, a limited monopoly."[2] Monopoly, one of the most potent of indirect subsidies, appeared in the system of conferences and deferred rebates, developed during the period of increasing competition.

Another interesting method was used in two or three instances by British shipping companies. Under The Straits Settlements Commission of 1902 the conference lines serving Singapore made an agreement with the six or seven leading firms of merchants, controlling about 60 per cent of the trade of the port, to pay a 5 per cent dividend to the merchants when freight was over 25s. "The Shipping

[1] Cd. 4668, *op. cit.*, pp. 9 and 10.
[2] *Ibid.*, p. 37.

Lines thus obtained a guarantee of more than half the export trade of Singapore and guarded themselves against cutting of rates by identifying the interest of the most important merchants with the maintenance of rates above the average of 25s. . . . "[1]

The Majority Report, signed by eleven members (two with reservations), recognizes the necessity for the shipping conferences and the system of deferred rebates; the Minority Report, signed by five members, states that the report overrates the advantages of the system and "does not give sufficient weight to the disadvantages resulting therefrom or to the dangers incident to the system."[2]

The conclusions of the majority were in part as follows:

> . . . where a regular and organized service is required, the Conference system, fortified by some tie upon the shipper, is as a general rule necessary. . . .
>
> We have shown that, although the Conference system has had the effect of maintaining rates from the United Kingdom at the same level as rates from the Continent, it has not in certain trades had the same effect with regard to the United States where the system is not in operation. We consider that this is a grave defect in the system which has in the past led to diversion of orders from this country to the United States of America and thereby discounted the benefits obtained from the system.
>
> We consider it advisable therefore that some means of checking abuse of the system in this direction should be found.[3]

The complaint is made not against the system of monopoly but against the one leak provided by the United States, for whose companies deferred rebates were illegal as "restraint of trade" practices.

That the conference system, with the tie of deferred rebates, was intended to maintain the supremacy of the

[1] *Ibid.*, p. 15.
[2] *Ibid.*, p. 95.
[3] *Ibid.*, p. 79.

British mercantile marine in world trade, particularly against growing German competition, is clear.[1] Any refusal of German lines to abide by conference agreements was regarded as unfair competition; such words as "weapon," "extort," "underhand," "evasion," "subterfuge," and "armour" appear frequently in the Command Paper. The British also objected to the German use of rebates on carrying charges.

The conference system and deferred rebates have been in continuous operation in the British mercantile marine since their inception.

In addition to the types of indirect subsidy that were employed by the British, during this period we find for the first time the grant of a direct public loan by the British government to a British shipping company.

On July 30, 1903, the Government and the Cunard Steamship Company signed a new contract; this contract contained provisions relative to mail-contract payments, which were to be £68,000 plus additional payment for any amounts over 100 measurement tons.

The admiralty section of the contract carried this new feature. By these provisions the admiralty agreed to pay £150,000 annually to the Cunard Company for the placing of two new high-speed vessels in service on the North Atlantic route; of this amount £75,000 would be paid on the entrance of the first vessel and annually thereafter, and the other £75,000 annual payment would begin on the entrance of the second vessel into service.

A further provision of the admiralty contract called for a loan of £2,600,000 with which to build the two ships; the loan was to be secured by a mortgage and was to bear

[1] For a detailed presentation of the facts relative to German competition from about 1895 to the First World War, see Cd. 9092, *op. cit.*, Part II—International Competition and Navigation Policy, Section I—The Carrying Trade in 1913, and Section II—German Competition.

interest at 2¾ per cent per annum. The loan would not draw interest during the construction period; it was repayable in 20 annual installments, the first to be made 1 year after the entry of the second vessel into service. The Government was to be issued one share of stock valued at £20.

The two vessels constructed with this government loan were the "Lusitania" and the "Mauretania."

Thus there was established, under increasingly keen competition, the principle of direct subsidy in the form of a low-interest, direct government loan and direct admiralty payments.[1]

Subsidies, Loans and Legislation—1918 *On.* By 1918 smaller companies that had begun operations on trade routes other than the three specified above were consolidated with other British companies in the field until we have the present relatively small number of firms serving the world-wide commercial and carrying interests of the United Kingdom and the Dominions.

With German competition, felt very keenly in the North Atlantic area before 1914, eliminated by the First World War, the British turned to the renewal of their fleet and the regaining of their supremacy.

So much stress has recently been laid on the supreme importance to this Empire of a merchant fleet, adequate to the needs alike of peace and of war, that we regard any enlargement of the subject as superfluous. Suffice it to say that a predominant mercantile marine is a necessity, if not only the maintenance but also the free development of the Empire is to be assured; if the United Kingdom is to continue, as in the past, to import food for her population and raw materials for her industry, and to export her coal and her finished products; and, lastly, if the hope of reconstruction after the war for all the Allied nations in Europe is not to be frustrated. *Our finding and recommendations*

[1] Hearings on H.R. 7521, pp. 223–225.

are accordingly based on two hypotheses, neither of which is likely to be controverted—the first, that the maritime ascendency of the Empire must be maintained at all costs, and the second, that the grave wastage sustained by the mercantile marine during the war must, therefore, be repaired without delay.[1]

The National Maritime Board, organized late in 1919, states in its constitution,

"1. That with a view to securing closer cooperation between the employers and employed of the British Mercantile Marine in the maintenance of maritime supremacy of the British Empire, there shall be constituted a board known as the 'National Maritime Board'. . . . "[2]

Legislation following the First World War was directed to a revival of trade and shipping; the Overseas Trade Act, 1920, an act to encourage trade with certain countries, was followed in 1922 by the Trade Facilities Act. By this act the Government guaranteed loans to industries that were large employers of labor and users of materials, the aim being to revive industries and commerce.

Under this act, extended by subsequent Trade Facilities Acts to 1927, the total guaranteed loans finally were raised to £75,000,000. The shipbuilding industry took advantage of these provisions to "repair the grave wastage" of the mercantile marine and to aid in the "maintenance of the maritime ascendency of the Empire" to the following extent:

It appears therefore that a gross authorization of £27,487,745 ($133,769,100) was made for shipbuilding purposes, reduced by £4,055,265 ($19,734,950), leaving a net amount of £23,432,480 ($114,034,150) as the actual guaranties obtained under the trade facilities acts of 1921–1926 for ship construction.[3]

[1] Cd. 9092, *op. cit.*, p. 51.
[2] Hearings on H. R. 7521, p. 253.
[3] SAUGSTAD, *op. cit.*, p. 258.

The Irish Loans Guaranty Act, 1922, was passed primarily for the purpose of guaranteeing loans for ship construction; the act was extended to Mar. 31, 1931. Under it the following guaranties were made: "According to the final report on the acts, House of Commons Paper No. 225, the total authorizations as of Mar. 31, 1931, were £11,455,657 ($55,748,950). . . . "[1]

In 1934 Parliament passed the North Atlantic Shipping Act, which provided that the Treasury would undertake advances not to "exceed £3,000,000" for the completion of No. 534—the "Queen Mary." The act provided £1,500,000 for additional working capital for the newly merged Cunard White Star Company and a loan of £5,000,000 for the construction of a sister ship. The Government would undertake insurance on the "Queen Mary" for any amount over that taken by private companies, to bring the insurance coverage to £4,500,000.

The British Shipping (Assistance) Act, 1935, provided operating subsidies for tramp ships and treasury loans for building cargo ships. The operating bounties were for the year 1935 only, while ship replacement bounties were for 2 years, 1935–1937. Part I provided £1,999,000 for operating subsidies; Part II, £10,000,000 as loans from consolidated fund.

Detailed specifications for the granting of the operating and replacement bounties were included in the act. One of the most important provisions was that, in order to secure loans for building cargo ships, obsolete vessels must be scrapped: "2 gross tons . . . for each gross ton built, and . . . 1 gross ton . . . for each gross ton . . . modernized."[2] Further provisions were that demolition, building, and modernization must be done in the United Kingdom

[1] *Ibid.*, p. 260.

[2] SAUGSTAD, JESSE E., Senate Document No. 60, Memorandum in consideration of S. 2582, p. 25.

or "with the consent of the Board of Trade outside of the United Kingdom. . . . "[1] Vessels were to be registered in a port of the United Kingdom and remain so registered until principal and interest were paid; interest was to be at the rate of 3 per cent, and loans were to be repaid within 12 years.

The ultimate effect of these guaranties is problematical. All interests agree that the acts notably assisted the unemployment situation and aided in the stimulation of certain industries. Through the Chamber of Shipping, general cargo vessel owners condemned the acts on account of their adding tonnage to an already overloaded tonnage market. Line organizations saw a good opportunity to acquire expensive competitive tonnage at lower interest rates than could be acquired in the open money market. Shipbuilders obviously found nothing but praise for the increased shipbuilding activity.[2]

. . . The level of freight rates rose in 1937 well above the limit which had been set for the payment of subsidy . . . and actually no subsidy was paid in respect to the year 1937 and the Act was not further renewed. Certain difficulties were also experienced in connection with the "scrap and build" scheme and this was discontinued as well. Subsequently, conditions in both shipping and merchant shipbuilding industries deteriorated and there was renewed agitation for further Government assistance. As a result the Government invited shipowners in 1938 to formulate and submit proposals and the present Bill has developed out of these proposals. In addition to the subsidy for tramp shipping and assistance to shipbuilding which were the features of the earlier Acts, the new Bill includes provision for financial assistance to the liner services to counteract subsidies and other assistance officially given to various foreign shipping. This feature arises out of long standing attempts on the part of British services concerned to obtain some Government assistance for this purpose. Finally, the general international situation has led to a decision

[1] *Ibid.*, p. 25.
[2] *Ibid.*, p. 28.

to create a Government owned reserve of merchant shipping which would not be used for ordinary trading purposes but which would be immediately available in time of emergency.[1]

The above resulted in the introduction in July, 1939, of The British Shipping (Assistance) Bill, with the following main items:

1. Assistance for shipping.
   a. Tramp shipping subsidy.
   b. Assistance for liner shipping.
2. Assistance for shipping construction.
   a. Loans for shipbuilding.
   b. Financial grants for new ships.
3. Creation of a Government owned merchant ship reserve.[2]

The outbreak of war prevented any results from the bill, but the legislation is indicative of the line of thinking that had developed in Great Britain before the war and may hold some indications of postwar policy.

Imperial Preferences. Another answer of the British to the increasingly keen competition of other merchant marines was the reinstitution of the system of imperial preferences, fully established under Mercantilism.

Imperial Preference is a trade policy based on numerous agreements and legislative enactments whereby one part of the British Empire provides for more favorable treatment of goods imported from another designated part of the Empire than is accorded similar goods imported from a country outside the Empire. As various parts of the Empire enjoy tariff autonomy, the preferential system is not uniform. Some areas of the Empire maintain a single-column tariff and grant equality of treatment to all imports regardless of source, while other areas maintain a tariff of two or more columns and provide lower rates of duty for imports from all or specified parts of the Empire. The amount of the preference

[1] From "S.R. 10," Homer S. Fox, Assistant Commercial Attaché, pp. 2 and 3.
[2] *Ibid.*, p. 1.

varies from a small fraction of the tariff rate to the full rate, and the methods of application vary from area to area.[1]

Preferential tariffs have a long history in Great Britain, reaching their early climax in the mercantile system, under which bounties also were paid on the production and sale to Great Britain of certain products from the colonies.

> The preferential system grew, and, by 1840, the articles on the preferential list totaled 82 items. In 1942, preferences were provided on 375 of a total of 1,825 items. . . .

Under Sir Robert Peel's leadership preferential and protective tariffs were first reduced in 1846; by 1860 Great Britain was on a "free-trade" commercial policy, which policy was continued officially until 1915.[2]

In the last two decades of the nineteenth century, however, there was a growing demand for an Empire preference system, this demand coming from business men in Great Britain and in the Dominions.

As a result of this unanimous pressure Great Britain gave notice of termination of trade treaties with Belgium and Germany, by which treaties preferential agreements would have had to be extended to them. The termination notice stated, in part, that the treaties constituted "'a barrier against the internal fiscal arrangements of the British Empire which is inconsistent with the close ties of commercial intercourse which subsist and should be consolidated between the mother country and the colonies.'"

Effective competition resulted in the reestablishment of the Empire preference system. At the Colonial Conference of 1897 such a plan was adopted; Canada immediately

[1] The following quotations on imperial preferences, except as otherwise designated, are taken from the article, British Imperial Preference System, by Thomas R. Wilson, Chief, British Empire Unit, Bureau of Foreign and Domestic Commerce, in *Foreign Commerce Weekly*, June 3, 1944, pp. 3*ff*.

[2] In 1904, however, a duty was placed on all exports of Malayan tin except that which was to be smelted in Australia or in Great Britain.

provided for preferences, which became effective the following year. Newfoundland established preferences in 1900, New Zealand and the Union of South Africa in 1903, Australia in 1906, and India in 1927. "In addition, most of the colonies grant preferential rates on all or specified imports from all or specified portions of the Empire."

British industry and trade are so interdependent that an indirect subsidy granted to one becomes, in effect, an indirect subsidy to the other. Balfour, speaking at Haddington in October, 1911, said, " . . . the preferences of such immense advantage to us and to our manufacturers . . . "; he might have added, "and shippers."

The Tariff Commission report, 1913, said,

"In conclusion, it may be stated that the trade returns of the Dominion, as a whole, demonstrate that since the introduction of the preference in 1897, the proportionate decline in the imports of British goods which had occurred up to that period has been checked, and that notwithstanding keen competition on the part of the United States and other countries, British manufacturers have undoubtedly been enabled to retain their proportion of trade in the markets of the Dominion, while largely increasing the amount of that trade."[1]

The closer Empire ties that were established during the First World War had certain results in commercial and trade policies. The McKenna Duties, 1915, while established as a war measure, continued beyond the war. "The Paris economic pact and the Imperial War Conference endorsed the principle of preferences, and, in 1919, the necessary legislation was passed. . . . " Critics of the preferences law pointed out the small number of items on the list and the negligible benefit to some parts of the Empire.

After 1919 the following protective measures and policies

[1] The Tariff Commission, The Abandonment of Cobdenism, M M 50, 17/10/13, P. S. King & Son, Ltd., for the Tariff Commission, footnote, p. 18.

were adopted: (1) Dye-stuffs Act of 1920, (2) Safeguarding of Industries Act of 1921, (3) Safeguarding Policy of 1925, (4) growing spread between excise and custom duties, (5) increased preferences on some foodstuffs and tobacco.

During the period between the close of the Conference of 1930, under Ramsay MacDonald, and the Ottawa Conference, 1932, the policy had become one of protection: "temporary duties," in effect since 1915, were superseded by a permanent general tariff.

The Import Duties Act of 1932 contained four specific provisions: (1) for the imposition of a general ad valorem tariff of 10 percent on all imports except those previously dutiable, those from Empire countries, and those on a specified list of exemptions; (2) for the appointment of an advisory tariff committee to make recommendations for additional duties on luxury and nonessential imports; (3) for the imposition of countervailing duties against goods from countries which may be considered to discriminate against British goods; and (4) for the extension of the system of Empire preference.

The Ottawa Conference resulted in the signing of 12 bilateral trade agreements among the members of the Empire. By these agreements the United Kingdom undertook to purchase from the Dominions exclusively, if possible, those materials needed in the United Kingdom.

The inter-Dominions agreements provided for exchanges of similar increased preferences on groups of products of special interest to the particular contracting areas. These agreements had as their prime declared purpose to increase the purchases from each country of many commodities now largely obtained by the various British areas from outside the Empire. . . .

With the passage of the Ottawa Agreements Act of 1932, the United Kingdom had completed the transition from a nonpreferential free-trade policy . . . to a full-fledged protective preferential system. The present preferential system is not fully a resurrection of the system of the eighteenth and early nine-

teenth centuries. While the mechanics are similar, the motif is different. The old system had in view the aggrandizement of the United Kingdom and the expansion of British trade. The present system is more in the nature of cooperation between Empire areas for their mutual advantage.

What are some of the measures taken in "cooperation between Empire areas for their mutual advantage"?

Certain measures that have shifted shipments of goods to British and Empire vessels are worthy of note here. If Canadian wheat and other exports, for example, are sent to England by way of Buffalo, the Erie Canal, and New York port, it is necessary for satisfactory proof to be given to the British customs authorities to convince them that the goods actually are the produce of Canada rather than of the United States. The results of this measure have been a great stimulation of British shipping: in 1929, 49 per cent of the exported grain of Canada was shipped through the United States; in 1932, only 19 per cent went through United States ports.

British goods that are entitled to a preferential duty as Canadian imports are given a 10 per cent discount on the duty over and above the preference if they are brought direct to Canada without transshipment; this additional 10 per cent is granted also on transshipped goods if the reexport is made from a British port.

The experiences of the Oceanic and Oriental Navigation Company, a subsidiary of the Matson Navigation Company, on the South Pacific route, to New Zealand and Australia from San Francisco, illustrate further the handicaps under which American ship operators work in competition with the British under the Empire preference system.

Tariffs have struck Matson at several vulnerable spots. Australia, for example, has a duty on automobiles that is reck-

oned on the cost plus the overland freight rates to the port of exit. Since this is forgiven trade moving through British territory, a considerable saving can be made in the case of automobiles by diverting them from Detroit across the Canadian border to nearby Windsor, for relay to C.P.R. trains and ships.

The worst blow fell upon the O. & O. boats when Australia clamped down with a high duty on fir and spruce, the major items of export. With that, the lumber trade, of which 80 per cent had previously originated in U. S. ports, took flight to Vancouver and Puget Sound; these ports now handle 90 per cent of the business. . . . [1]

By the granting of lower tariff rates to fir and spruce carried in British bottoms than to fir and spruce carried in American bottoms, Australia has shifted American exports to Canadian ports and to British or Empire bottoms. United States products are wanted, but American vessels are unwelcome as carriers of those American products.

What are the postwar prospects as to Empire preferences? Canada, Australia, and New Zealand all are convinced of the importance to them of cordial relations with the United States and the development of a large volume of trade between the United States and each of these Dominions of the Empire. But the attitude of leaders in the United Kingdom is of special interest and doubtless will have great weight in postwar Empire conferences. The Federation of British Industries speaks for a responsible sector of British industry on this subject.

Although the present Report deals with international trade in the widest sense, it is recognised that the economic relationship of the members of the British Empire requires special consideration. The objectives of Empire policy should be not only to increase the prosperity of the Empire but also to contribute to world prosperity, of which it is such an important factor.

[1] *Fortune Magazine*, September, 1937, p. 174. Also published as *Our Ships* by the Oxford University Press. Used by permission.

Decisions on the main aspects of Empire policy cannot be made until the constituent members of the Empire have been afforded an opportunity for joint consultation. Apart from the problem of inter-Empire trade, the relations between the constituent members of the British Empire and the rest of the world must have a profound effect upon general world economy. Thus, it is a question of cardinal importance whether in future international discussions on economic reconstruction the Empire should decide to act so far as possible in unison with the object of pooling its experience and resources in the settlement of the post-war problem.

(*a*) The objectives of Empire economic policy should be to ensure the maximum interchange of products for the mutual benefit both of those who produce and those who consume them. If this objective of mutual exchange is to be achieved, the real problem is to ensure that imports can be paid for by exports. In the pre-war period mutually beneficial arrangements on a preferential basis existed which facilitated such an interchange of products. It must be made clear that the Committee does not approach this problem from any point of view other than the strictly practical one of enabling the necessary imports to be paid for. The Committee realises that if other countries become important purchasers of Empire products a similar necessity would arise for them to be able to pay for their purchases.

(*b*) The Committee feels that future arrangements to facilitate the maximum exchange of goods between the various parts of the Empire can only be arrived at by decisions taken as a result of mutual consultation and agreement between the various members of the Empire.

(*c*) The Committee, therefore, feels that consultation should take place at the earliest possible date between the constituent parts of the Empire and that representatives of the various business interests chiefly concerned should be associated with these consultations.

Such consultation would give an opportunity of deciding, by mutual consent, how far the Empire would be prepared to work in unison and to evolve a common policy covering, *inter alia*, the following main questions:

(i) The system which in future should govern Imperial trade relations and facilitate the fullest exchange of products and goods within the Empire.

(ii) The extent to which the Empire could, in unison, cooperate with other countries in establishing the greatest possible flow of world trade.

(iii) The extent to which steps could be taken to raise the level of prosperity of the more backward parts of the Empire, such as certain of the tropical and other Colonies.[1]

Some brief analysis is necessary of the oft-repeated statement that the American tariff practices in general and the Hawley-Smoot tariff in particular were responsible for the 1932 Ottawa Agreements.

As pointed out in a quotation above, "The present preferential system is *not fully a resurrection of the system of the eighteenth and early nineteenth centuries. . . .* "[2] Writers and speakers in the field tend to speak of Great Britain as a "free-trade country," overlooking some basic historical facts as well as the basic policy of Great Britain.

In the section on Early Aids attention is drawn to the fact that the first Navigation Act was passed in 1381; even prior to that, in 1349, a form of tariff was instituted. From the middle of the fourteenth century to 1860 Great Britain had a recognized and established policy of encouraging trade and shipping by means of tariffs and/or preferences in favor of British ships, absolute prohibitions, diplomacy, war—every resource was directed to the aid of shipping and commerce.

From 1860 to 1897, when Empire preferences were reinstituted, Great Britain had no *tariffs* and apparently no preferences; for 37 out of approximately 600 years (1349–

[1] Extract from The Federation of British Industries—International Trade Policy—Report of the F.B.I. International Trade Policy Committee, February, 1944, pp. 21–22.

[2] Italics added.

1944) Great Britain has had "free trade." Even during this period, the home market in manufactured goods was protected by trade associations[1] about which Adam Smith had complained, and the system of tying shippers to British lines through the conferences and deferred rebates was instituted.

England had "free trade" only during this brief period when "The foundation of the self-complacency which we have noted as a feature of British life in this period was the fact that Britain's industrial supremacy seemed to be so overwhelming as to be impregnable. It was only in the last decade of the period that this belief began to be qualified by misgivings."[2]

In discussing shipping, the same author says of the period preceding the suspension of the Navigation Acts, 1849, and of tariffs, 1860, " . . . in the sea-faring activities to which the European Powers had devoted so much of their thought, Britain was left practically alone, save for some spasmodic and unimportant ventures by her old rival France."[3] Of a later period in shipping Muir adds,

> By 1900 the German total had risen to 1,348,000—a sixfold multiplication in twenty years. The British figure had meanwhile risen to over 7,000,000 tons, so that British leadership in this sphere was still secure. But the German mercantile marine had definitely become the second in the world, and the great shipping lines of Hamburg and Bremen were extending their enterprises to every part of the globe.[4]

Postwar developments in this field were foreshadowed at the historic meeting of Churchill and Roosevelt from which came the Atlantic Charter. Sumner Welles, present at the meeting, said,

[1] See Chap. IV.
[2] MUIR, *op. cit.*, Vol. II, p. 574.
[3] *Ibid.*, p. 336.
[4] *Ibid.*, p. 605.

It was my strong hope that the British Prime Minister would be willing in this document to indicate the intention of Great Britain to co-operate fully with the United States in holding out to peoples everywhere the hope that the two governments would jointly assume leadership in the postwar world in bringing about the elimination of autarchic trade systems, and in abolishing such examples of discriminatory commercial arrangements as the Imperial preferences themselves.

This was of course the view of the President. Mr. Churchill stated quite frankly that, while he himself throughout his political career had vigorously opposed Imperial preferences, and had consistently favored the liberal trade principles of the latter part of the nineteenth century, he was not empowered constitutionally to enter into any commitments of this character without the consent of the other members of the British Commonwealth of Nations. In view of this insistence of Mr. Churchill, the fourth article of the Declaration, when it was finally drafted, contained the well-known reservation "with due regard for their existing obligations." It was fully understood, however, that this reservation was inserted solely to take care of what it was hoped would be merely temporary impediments to the more far-reaching commitment originally envisaged in that article.[1]

As pointed out elsewhere, the Federation of British Industries gave strong support to Empire preferences (1930–1932); its recent report would indicate that the system of preferences will receive the same support in the postwar period.

Whenever British ascendancy is threatened, Great Britain invokes some one of her ancient policies for favoring her foreign trade and shipping; when her supremacy is unchallenged, these policies are permitted to lie dormant, but they are never wholly abandoned.

The United States, a nation that came into its independence 400 years after the first Navigation Act was

[1] WELLES, SUMNER, *The Time for Decision*, 1st ed., p. 176, Harper & Brothers, 1944.

passed in Great Britain, found tariffs the best means of affording protection to her infant industries during the early period of their development. The British have shown a disposition to excuse some of their protective measures on the ground that they were in the nature of retaliation against the American protective tariff. As a matter of fact, while the impression generally exists that England is a "free-trade" nation, she has not been so except for a very brief period in her history. Where she has not protected her home industries by means of a tariff, she has resorted to other devices for their protection by extending discounts or rebates to those who purchased only British-made goods or by various practices that had the effect of boycotting foreign-made goods.

The point is that the United States can feel perfectly free to adopt any system that is protective of American industry or American foreign trade and shipping and be assured that there is ample precedent in the practices of the British and that no such policy on the part of the United States should be the occasion for any retaliatory measure on the part of the British.

An indication of additional postwar policies is given by Noel Baker, Parliamentary Secretary to the Ministry of War Transport:

> It was pointed out to him that the United States, which had never been regarded as a great maritime nation, would end the war with between 15,000,000 and 30,000,000 tons of first-class shipping. We should be no longer supreme at the end of the war. The ball had passed to the United States. Mr. Noel Baker, in his reply, said, the Government fully accepted the two basic propositions—that for this country the Merchant Navy was a vital national interest, and would remain so in peace-time as it was in war; and that to the officers and men they had made pledges that they were bound in honour to carry out. The first of three principles on which the action of the Government would

be founded (he proceeded) was that this country must continue to serve the world with a large and efficient Mercantile Marine. The word 'must' was fundamental. It governed all the rest Secondly, the Government would be prepared to collaborate with other like-minded Governments in establishing conditions under which the shipping of the world could be efficiently and economically carried on. Shipping was and must be an international affair. . . . [1]

Speaking of the merchant marine as "a great strategic weapon" and referring to the possible conflict after the war between Great Britain and the United States because of the predominance of the latter in tonnage, Lord Winster said before the Royal Empire Society in London: " . . . we will roll up our sleeves and compete, always remembering that not only are our costs lower, but our seamen and shipbuilders are second to none and our shipowners have shown the whole world how to build and run a merchant navy."[2]

[1] *Shipping after the War*, *Statist*, Aug. 28, 1943, p. 623.
[2] *The New York Times*, Mar. 2, 1944, dateline—London, Mar. 1, p. 6.

CHAPTER II

BRITISH INTERNATIONAL TRADE POLICIES IN RELATION TO OTHER NATIONS

Great Britain for a good many decades has been undisputed Mistress of the Seas and the greatest of all maritime trading nations. What suggestions may her history and her methods of development, her policies as revealed in these as well as in the words of her leaders and statesmen have for the building of a greater American merchant marine and of greater international trade between the United States and the other nations of the world?

Early Policy and Activities. A detailed history of the early trade of Great Britain is not a part of this study, but there are certain trends and practices that are important because they point the direction that later development might take and they outline British policy in shipping and international trade.

Early rulers of England evinced an interest in the prospects of gain from trade; Henry VII

> . . . was not only a merchant on his own account, but a great encourager of maritime expeditions; in that he often himself furnished the ships and advanced the requisite capital for their equipment . . . there can be no doubt that the example and practice of Henry VII extended the field for maritime adventure among his subjects, and at the same time aroused the cupidity of the English nation by the prospect of incalculable wealth derivable from intercourse with distant foreign lands.[1]

In addition to encouragement of commerce, Henry VIII established England's first Royal Navy; English

[1] LINDSAY, *op. cit.*, Vol. II, p. 50.

fighting ships would now promote her interests on the high seas and protect her merchant shipping.

During the sixteenth century the Crown, especially Good Queen Bess, observing the wealth that flowed into Spain, Portugal, Holland, and other countries through the voyaging of their seamen, encouraged the sending out of British ships and the establishing of trade routes to foreign countries, especially to the East, from which the richest of cargoes came. As a primary encouragement to this trade, monopolies were granted to groups of Englishmen who organized companies for the purpose of financing trade with certain sections of the world, and the British Crown provided protection or licensed these companies to arm their vessels and men to protect themselves on their trade routes and in the countries to which they went in their search for goods and riches. The history of the East India Company is a fabulous story of the enterprise of this company of investors and venturers and of the riches and power that came to them, of the extension of dominion, of the wealth that flowed into the Crown Treasury, and of the extent to which monopoly dominated the beginnings of British trade. The interest of the British Crown and leaders in the East India Company and the other chartered companies and the backing afforded them in their exploits are an indication of the later developments in British foreign-trade policy.

What was the attitude toward competitors in the field of international trade? A pamphlet written in England about 1600 sums up the more vocal attitude of that time: " . . . lament the flourishing trade of the Dutch, Spaniards and others, and urges action on the part of the government which will drive such commerce from the seas and supplant it by English commerce instead."[1]

[1] National Foreign Trade Council, September, 1916, European Economic Alliances, p. 18.

Was this lament to reach influential ears? Would the English attempt to supplant the commerce of other great maritime nations? A British historian has the following to say:

> In the sixteenth century the chief foreign menace to England had come from Spain. . . . Throughout a large part of the seventeenth century the main source of danger was Holland. . . . At the close of their long and successful fight with Spain the Netherlanders had risen to an abnormal height of power and prosperity, and had almost monopolized the carrying trade of the world. Against them was directed in 1651 the first general Navigation Act, which was upheld in war and the provisions of which were greatly extended immediately after the Restoration. The primary object of the Navigation Laws was the maintenance and development of British sea power and, as vital to British sea power, the breaking down of the Dutch monopoly of the carrying trade. . . . [1]

The final struggle came with France in the eighteenth and early nineteenth centuries and culminated in the defeat of the Napoleonic forces and the unquestioned leadership of the British Navy and mercantile marine.

A mercantile marine that in 1790 consisted of 15,015 vessels, with 1,460,823 tons and 112,556 men had grown by 1850 to 24,288 vessels, 5,250,553 tons, and 261,194 seamen.[2]

Until about the middle of the nineteenth century, when Great Britain was supreme and unchallenged in her position in world trade, the methods used had been those of levying import duties and setting up prohibitions, levying export duties or establishing prohibitions, giving bounties on imports and exports, passing legislation that gave her shipping a monopoly position not only in trade with the United Kingdom but also in trade with her colonies and

[1] *The Cambridge History*, Vol. I, p. 6.

[2] See Appendix B.

plantations, concluding special treaties with other powers, using all the methods of diplomacy, and, those failing, resorting to war. By these means trade supremacy was gained.

The methods of the period have been discussed briefly. What was the economic philosophy that lay back of this unremitting struggle and that was commonly referred to as "Mercantilism"?

> The function of the statesman was supposed to be to increase the power and wealth of his own people at the expense of the power and wealth of other peoples. The object of such a policy was not primarily absolute wealth and comfort, but relative wealth and comfort in comparison with other nations.[1]

Within the nation many of the rising group of business men and traders were demanding freedom of enterprise, the abrogation of the charters granting monopolist rights to trading companies, greater flexibility within the business system of Great Britain.

> But the tendency was only to seek freedom of enterprise as between Englishmen, and the monopolist spirit demanded all the more strongly that restrictions should be placed upon the enterprise of foreigners within the English sphere of control. Stuart rule, in short, had favoured particular monopolies; Commonwealth rule was to favour national monopolies.[2]

The government policy of favoring national monopolies was continued with increased vigor under Mercantilism during the Restoration and throughout the eighteenth and the first half of the nineteenth centuries.

Importance of London in World Trade. Any discussion of the emergence of England as the great trading nation of the world is incomplete without some attention to London as the great commercial and financial core of this trade.

[1] National Foreign Trade Council, *op. cit.*, p. 17.
[2] *The Cambridge History*, Vol. I, p. 214.

That the position of London as the entrepôt city of the world was established under Mercantilism and has been a vital factor in the maintenance of British supremacy in international trade cannot be denied.

As British competitors—the Portuguese, the Spanish, the Dutch, the French—were eliminated from effective competition in shipping and as London became increasingly the entrepôt of the world, the monopoly of British carriers more and more nearly approached being one on the carrying trade of the world. The importance of the monopoly conferred by Government through the Navigation Acts cannot be overestimated in any survey of the development of British commerce and the carrying trade.

In addition to its importance to the carrying trade, it must be stressed that it also reserved to British manufacturers and traders the raw materials and the markets of all England's colonies, which in turn guaranteed to them the markets arising in other countries for the colonial products and the commercial transactions involved in purchasing and carrying to the colonial markets the produce of these other nations.

London's importance in the commercial organization of Europe was derived from its distributing and banking power. London, in this respect, took a unique position among the ports of Europe, being both the commercial as well as the financial centre of a vast economic system. The United Kingdom re-exported before the war goods not produced in the U.K. to non-European markets outside the British Empire, valued at $170,000,000, and to British possessions to the value of $65,000,000. The largest part of that trade was done via London, through the agency of shippers specializing in re-export trade.[1]

In addition to the reexport trade of London, many Englishmen become middlemen for European producers

[1] National Foreign Trade Council, European Interdependence, p. 69.

and buyers. With this relationship the goods were shipped direct, but all financial transactions were by way of London; " . . . London in this way made great profits in the form of commissions. . . . "[1]

It can also be pointed out here that the position of London as the reexport center of the world, the great entrepôt city, meant that, in addition to the large percentage of these reexport goods carried from their origins to London, then from London to the market in some other country in British ships—at a carrying charge, Englishmen collected, among others, the following fees and charges on those goods: insurance, incoming and outgoing, as well as while in storage in London or elsewhere; pilotage on the ships entering and clearing from London; river dues and charges; dock charges; stevedoring wages; warehouse fees and storage charges; freight forwarders' charges; agency fees; bank charges on the financial transactions involved; interest on commercial loans to finance the purchases of reexported goods; exchange fees; etc.

For four or five hundred years the British have been conducting the type of commercial operation that involves several transactions, on each of which they take a fee or secure a profit; it is not to be wondered at that they excel in this type of transaction, which immeasurably strengthens their position in international trade and commerce.

"Free-trade" Period. During the latter part of the period in which the British were engaged in driving their competitors out of the carrying trade and establishing for their mercantile marine a monopoly of the carrying trade of the world, an increasing number of Englishmen were convinced that the early chartered trading companies, trading monopolies, the Navigation Acts, Empire preferences, and other restrictions on the flow of goods in international commerce were a detriment to British welfare

[1] *Ibid.*, p. 70.

and to industry, trade, and shipping. This sentiment found probably its most influential spokesman in Richard Cobden. In spite of spirited opposition by shipbuilding and other interests "free trade" won out.

By 1855 all preferences in the colonies had been removed, and by 1860 the remaining preferences enjoyed by colonial products in the markets of Great Britain came to an end. For the next two or three decades the British Government applied with rigor the policy of free trade and the open door.[1]

Under this rigorous policy Belgium and the German states, the *Zollverein*, were granted any preferences that might be extended to Great Britain in her colonies (these were the treaties terminated under Joseph Chamberlain following the Imperial Conference of 1897).

During the period from 1850 to 1880 the trade of Great Britain increased even beyond the expectations of the "free-trade" or Cobden group. Free trade promoted the national interests of the British and increased their relative prosperity for this brief period during which their position in world commerce was that of unchallenged supremacy.

By what was for the British a happy confluence of events, the growth of shipping in the new iron (later steel) vessels, propelled by steam, came during a period when the United States was absorbed in the growth of the conflict and the final War between the States, which almost totally destroyed the merchant marine of the Republic. The period of reconstruction and internal development following the Civil War saw comparatively little interest in or development of the American merchant marine.

The effective competition of the closing years of the nineteenth century and the opening years of the twentieth came from Germany, which was increasingly considered a

[1] CULBERTSON, WILLIAM SMITH, *International Economic Policies*, p. 157, D. Appleton-Century Company, Inc., 1931.

dangerous competitor because of the rate at which her mercantile marine was growing.[1] Germany began the building of her merchant vessels after steamships had reached a high stage of development, so that her builders could take advantage of the accumulated knowledge of other nations. The future of German competition with the British merchant marine was determined by the outcome of the First World War and subsequent international and German internal developments, all of which are of too recent history to need repeating.

The unity of the Empire as support to the British position in international trade is important. Apparently British leaders became increasingly conscious of this fact as the competition in trade became more severe.

> The first Colonial Conference had met in 1887, but had barely touched on economic matters. Not until the third Conference, in 1897, did economic policy come up seriously for discussion. In the same year Great Britain denounced the commercial treaties which prevented her from granting imperial preferences; and Joseph Chamberlain, during his period at the Colonial Office, inaugurated a new policy of fostering Empire trade. . . . [2]

Canada began the system of Empire tariff preferences in 1898; New Zealand and South Africa inaugurated them in 1903, and Australia in 1906.

The importance of the Empire trade is shown in the following figures:

> The total value of the imports into the United Kingdom . . . amounted in 1895 to 417 million £ and by 1913 had increased to 769 £; the exports of the produce and manufactures of the United Kingdom, which were 232 million £ in the former year, had risen to 525 million £ in 1913, whilst re-exports had increased from 60 to 110 million £. . . .

[1] See Appendix C.

[2] Cole, G. D. H., *British Trade and Industry*, pp. 103 and 104, Macmillan & Company, Ltd., 1932.

The proportion in value of the imports drawn from British Possessions has tended to increase in recent years, though the upward movement has not been rapid. The average for the quinquennial period 1900–1904 was 20.8 per cent., and for 1905–1909 22.9 per cent., whilst for the four years 1910–1913 it was 25.1 per cent. On the other hand the proportion in value of the exports of the produce and manufactures of the United Kingdom which went to British Possessions fluctuated considerably, the averages being:

1900–1904	37.0 per cent.
1905–1909	33.3 " "
and 1910–1913	35.7 " " [1]

British carriers predominate in the trade of the Empire, as disclosed in the following:

It would seem, therefore, that British ships carried 52 per cent. of the world's seaborne trade, the proportions in the different trades being distributed as follows:—

	Per cent
Inter-Imperial Trade	92
Between the Empire and foreign countries	62
Between foreign countries	30

The volume of trade carried under the British flag was probably slightly less for the United Kingdom, bringing the average for the world's trade down to about 50 per cent.

No doubt if the short sea trades were excluded the British proportion would be materially higher.[2]

The preceding figures are for 1911 and 1912.

The *Final Report* of the Departmental Committee on Shipping and Shipbuilding (1919) leaves no doubt of the attitude on certain matters.

Our findings and recommendations are accordingly based on two hypotheses, neither of which is likely to be controverted—

[1] Final Report of the Committee on Commercial and Industrial Policy after the War, 1918 (Cd. 9035), p. 8.

[2] Cd. 9092, *op. cit.*, Appendix E, p. 146.

the first, that the maritime ascendency of the Empire must be maintained at all costs, and the second, that the grave wastage sustained by the mercantile marine during the war must, therefore, be repaired without delay.[1]

Economic Imperialism in International Trade. Since the uncontroverted hypotheses are that the "maritime ascendency of the Empire must be maintained at all costs" and that "the grave wastage sustained by the mercantile marine during the war must . . . be repaired without delay," what means did the British employ following the First World War to reestablish maritime ascendency and to repair the grave wastage of the merchant marine?

The resurgence of the older spirit of Mercantilism as evidenced in part by the strengthening of economic ties within the Empire and with the members of the Commonwealth had reached a peak by the close of the First World War. There were demands for various types of aid for the merchant marine and for the revival of world trade. Many of the leaders in the field of trade and merchant shipping are also leaders in the Government; so the latter is very sensitive to the needs and desires of its traders and shippers. Consequently, laws aimed toward the revival of the trade of Great Britain were passed by Parliament.

Since this discussion cannot be exhaustive, we shall limit ourselves to those acts that had the most direct bearing on the revival of shipping and trade after 1918.

The Overseas Trade (Credits and Insurance) Act, 1920, has the avowed "purpose of re-establishing trade or any branch of trade between the United Kingdom and any country, being one of the countries specified in the Schedule of this Act"; the Board of Trade, with the consent of the Treasury, can extend credits for exports of "goods wholly or partly produced or manufactured in the United King-

[1] *Ibid.*, p. 51.

dom" and can provide insurance on those goods. This act was "in effect 21 June 1919," and the schedule included the following countries: Finland, Latvia, Esthonia, Lithuania, Poland, Czechoslovakia, Yugoslavia, Rumania, Georgia, and Armenia.[1] By an Overseas Trade Act dated Apr. 26, 1934, the guarantees under the act extend to Mar. 31, 1950.[2]

Further legislation was the Trade Facilities Act, 1921, guaranteeing loans made for the purpose of promoting activity among employers of many workers. The original act provided guaranties of £25,000,000 ($121,662,500) and contemplated eight general sections of industry. This act expired in 1923; renewals of it were passed, the final extension being made to 1928 and the guaranties being raised to £75,000,000 ($364,987,500).

Included under the act were a large number of guaranties for the purchase of machinery for foreign account and for development of foreign industrial projects.

The British Shipping (Assistance) Act, 1935, which departed from British practice in that it granted a direct subsidy to shipping and shipbuilding, has been discussed in some detail in the section on subsidies; it was another type of aid granted in the face of keen international competition.

One does not inquire too closely in "the heat of battle" into the economic rivalries that underlie the battle; years elapsed following the First World War before the economic causes became clear and very apparent. It will be interesting to see what the economists of the years following the Second World War will have to say in this field; may it not be, in the large, a repetition of the story of the First World War?

[1] Public General Acts 10 and 11 Geo. V 1920, Chap. 29, pp. 181*ff*. Act dated Aug. 9, 1920.

[2] *Ibid.*, 24 and 25 Geo. V 1933–1934, Chap. 12, p. 37.

Looking past the war to probable postwar policies, what indications have we from Great Britain in this field?

The Federation of British Industries, England's greatest organization of industrial and commercial leaders, in February, 1944, issued a report on International Trade Policy. That this great body of business leaders is looking toward planning in the postwar world is made very clear by the suggestion that one of the stages in attaining economic advancement and social security will have to be as follows:

. . . the framing of a system of the world trade which will result in the maximum degree of continuing prosperity for all peoples. . . .

The world can no longer afford to leave matters to chance in the hope that the economic problem of the future will eventually solve itself. . . .

If the United Kingdom is to play its proper role in these consultations, a co-ordinating body must be created by the United Kingdom to enable the various Government Departments concerned to speak with one voice on Empire matters.[1]

Policies on the maintenance of Empire and on international trade are inseparable. Even among Englishmen there were grave doubts in the early years of the war as to the survival of the Empire in the postwar period.

British imperialists are sure of themselves today because the evidence is overwhelming that the British Empire is more powerful now than it has been for generations. It not only possesses a stronger relative position in world affairs but it has a firmer hold upon the British people themselves, here in the British Isles and overseas in the dominions. . . .

London already is the center for continuous conferences, designed to adjust and to fortify the British position in every part of the world, and specific results have been obtained here right along.

[1] F.B.I., International Trade Policy, February, 1944, pp. 5, 7, and 28.

> . . . everybody can see now that British statesmen are making hay while the sun shines. The imperialists look back to prewar days with feelings of wonder that they ever let themselves become so weak, and they do not intend to relapse again.[1]

When the statement is made that "evidence is overwhelming that the British Empire is more powerful now than it has been for generations," we can assume that such an observation relates to the political position of the British Empire and not to the economic position of Great Britain. The economic position of Great Britain as related to other nations is not all that the British themselves desire as evidenced by the very radical action that they have taken in adopting a planned economy along totalitarian lines.

Britain has passed from being the greatest creditor nation in the world to being the greatest debtor nation, and the recovery of her economic position as related to other nations depends upon the development and extension of her foreign trade and shipping. The British authorities have stated that her economic situation demands that she increase her foreign trade by 50 per cent. To accomplish this it can be assumed that she will not relax in the keenness of her trading with other nations and will resort to all the devices that have aided her in the past to develop her dominant position in world trade and shipping.

Britain is not disposed at this time to discuss postwar shipping matters with other nations or to collaborate with other nations in solving the problems of postwar shipping. She prefers the freedom of working on her own and fears the commitments and restraints that are likely to flow out of any international discussion looking toward international control of shipping or shipping policies.

On the basis of any international discussions that have

[1] Bess, Demaree, *The Saturday Evening Post*, Aug. 5, 1944, p. 20.

thus far been held and on the basis of the conclusions that have been reached by British commercial organizations and the Government, the United States must assume that in any effort to expand and develop her foreign trade and shipping she must contemplate the keenest kind of competition from the British and that anything in the nature of collaboration with a view to the increase of world trade among nations generally along idealistic lines is not within the thinking of the British imperialists.

For hundreds of years the aim of the British has remained constant; only the methods of attaining that aim have changed.

CHAPTER III

BRITISH INDUSTRIAL POLICY AFFECTING FOREIGN TRADE AND SHIPPING

From an island that with its fishing fleets was largely self-sufficient in food, Great Britain has developed into a country in which agriculture is a minor source of employment and of income in comparison with industry and trade.

A comparison of employment figures for the 50-year period, 1881–1931, reveals that of 12,739,000 persons employed in 1881, 1,593,000 were engaged in agriculture; in 1931, only 1,194,000, or fewer than 6 per cent, of 21,055-000 employed were in this field. In 1931, more than twice as many people (2,412,000) were employed in the manufacture of metals, machines, implements, and conveyances as in agriculture; 1,317,000 were employed in textiles and 1,166,000 in coal and shale mining.[1]

Figures on imports emphasize strikingly the dependence of Great Britain on agricultural countries. For the 3 years 1936–1938 general imports of merchandise ranged from £847,800,000 to £1,027,800,000, of which from £374,100,-000 to £425,100,000 or from 41.1 to 46.1 per cent represented food; meat, dairy products, and cereals represented the first three items in foods. Only one item in general imports exceeded meat in value—textile fibers, raw materials for the industry of the Island.[2]

The preponderantly important position of industry in

[1] Board of Trade, Statistical Abstract for the United Kingdom, Vol. 83, Table No. 123, pp. 128–129.

[2] League of Nations, International Trade Statistics, Table IV, United Kingdom, p. 231, Columbia University Press, 1938.

Great Britain, her position as one of the leading industrial nations of the world, makes a survey of British industrial policy of primary importance in relation to her position in world trade and shipping.

Hand in hand with the British policy of establishing her supremacy on the seas went a policy in the industrial field, also. The British were not content to be carriers only of manufactured products; they began early in their trading to develop their own crafts and shops, which later became mills and factories and were eventually the chief suppliers of goods for the carrying trades of their mercantile marine. Do the national monopolies of Commonwealth rule appear in this field as well as among carriers on the high seas?

> . . . the outstanding and fundamental conclusion is that industrial capitalism in England was cradled in monopoly, not in competition. . . .
>
> Monopoly arose, therefore, in the early days of English industrial capitalism on the support of three chief buttresses, privileges from the Crown, suppression of internal competition by law, and a protective trade policy. . . . [1]

British trade was flourishing by the latter part of the eighteenth century, and British industry was being developed by every possible means. An interesting and significant fact relative to this industrial development is the pressure exercised by traders on industrial leaders. There was no search for markets; the markets were everywhere, waiting for goods; so industry was carried forward in Great Britain by the unfilled demands of traders for the products of the factories and shops. Since British ships were supreme on the high seas, British industrialists had first chance in the world markets for manufactured goods.

To meet the demands of her traders and markets, the British led the way in the early development of industrial

[1] LEVY, HERMANN, *Monopolies, Cartels and Trusts in British Industry*, pp. 42*ff*. Macmillan & Company, Ltd., 1927.

processes. And to protect this leadership, laws were passed forbidding the export of machines. What the Navigation Acts had done for the development of the British mercantile marine, the British lawmakers hoped to do for their industries. The result of these laws was not, however, to maintain the monopoly of the British in manufacturing; the prohibitions only helped to delay the development of these processes in other countries.

Another historical fact is of primary importance in this early development of a British monopoly in the world's markets for manufactured goods. The Napoleonic Wars of the late eighteenth and early nineteenth centuries destroyed vast areas of the continent of Europe, thereby destroying the beginnings of continental manufactures and delaying by a score or more years continental development in industry. During this very period of the Napoleonic Wars and the recovery years following, Great Britain made rapid progress in the establishment and improvement of industries, in the extension of her world trade, in the securing of a practical world monopoly in manufactures, except as certain countries (for example, the United States) raised a tariff to protect infant industries.

Basic to this industrial expansion was the need for certain and steady supplies, in ever-increasing quantities, of raw materials for the factories and mills. From this need arose the competitive struggle for Empire.

> . . . in the last thirty years of the nineteenth century the British Empire grew by 4,754,000 square miles, with an estimated population of 88,000,000. . . . During the same period, practically the whole African continent was partitioned among the Great Powers, the French especially building up a great African Empire, and Germany doing her best to acquire territory wherever the countries earlier in the field would allow her to get a footing. . . . [1]

[1] COLE, *op. cit.*, p. 109.

An interesting commentary on the means by which the African Empire of the British was acquired is the following:

> . . . for it was only by the supremacy of the British navy that the African slave trade was suppressed. But slavery apart, the exploration of the Dark Continent was a momentous accomplishment showing individual organisation at its best. . . . Colbert's Bastion of Africa . . . was one approach to the penetration of Africa. The British navy and the iron boats of Laird upon the Niger were a second; and the explorers of all countries, on foot and camel-back, were a third.[1]

During the early industrial development of Germany and the United States, the two leading developers of heavy and diversified machine industry outside Great Britain, these countries still absorbed great imports of British manufactured goods. However, as an increasing fraction of home markets was supplied by their own producers, the British were forced to search for other markets and resorted to the conquest of empire, as traced briefly above.

By the 1870's, Germany and the United States were not content merely to supply their domestic needs; they began to seek outlets in the world markets for their surplus produce of mills and factories.

In the existence of a surplus in these two new industrial nations lay the proof that Great Britain had lost her early leadership, even monopoly, in the new methods of production; she became during this period simply one of the world's leading industrial nations.

What factors lie back of this loss of monopoly of the new methods of production, back of the failure of British industries to increase their production at the accelerating rate attained during this and the postwar periods by both German and American industries?

[1] FAY, C. R., The Growth of the New Empire, 1783–1870, *The Economic Journal*, April, 1941, p. 84.

Enjoying a practical monopoly in the early world market for manufactured goods, English industrialists did not foresee the necessity to modernize their factories, to install the newest and most productive machines as they appeared on the markets, to step up their man-hour production to hold their markets. They underestimated the competition that would come from industrial systems that looked to specialists to develop increasingly efficient methods of production and assembly, that would scrap a plant full of fine machines in the belief that new machines by their added efficiency would more than pay for the scrapping.

In contrast with this continued rationalization of industry, especially in the United States, the British carried on with their increasingly outmoded plant and equipment. As one British industrialist privately admitted, they lived up their depreciation.

Another result of the increasing competition in foreign trade and the infringement of Germany and the United States on what has been a practical monopoly for Great Britain was that British trade was maintained by the restriction of domestic consumption, by the sacrifice of a rising standard of living.

A further result was the very great emphasis on overseas capital investment, with far-reaching effects on policy.

. . . as trade changed its character and came to include a growing amount of capital goods paid for by loans from British citizens to foreign companies or sold to British companies operating abroad, the British people came to have a far more direct interest in the political and economic behaviour of the countries to which they sent their savings. . . . [The British investor] was inclined to regard the preservation of order and tranquility in the countries to which he lent his money as one of the rights of property. Direct political intervention to secure this was not, of course, possible in civilised countries with constitutional governments; but as an increasing amount of capital flowed towards

the less developed parts of the world, Economic Imperialism became a marked feature of the political policy of the Great Powers. . . . [1]

The economic factors causing the First World War have been so thoroughly explored and have become so much a part of common knowledge that it is not necessary to elaborate on them here. Certainly some of the world's greatest economic rivalries were fought out on the battlefields of that war.

If there had been any doubt of the above, the recommendations of the Paris Economic Conference of the Entente Allies should have removed that doubt. Concerning those one writer says,

> The striking fact here is that the concept of "enemy nations" is not to cease with the termination of the war but is to continue indefinitely. Even in times of peace some nations are to be consciously recognized as the natural commercial enemies of others. . . . The conditions of international commercial rivalry of the twentieth century are more like those of the seventeenth than of the nineteenth century. Commercial power and political power again go hand in hand. . . . Two questions naturally arise. The first is . . . whether the political factor will outweigh the economic factor. The second is whether either the economic or the political interests of such diverse countries as Russia, Japan, France and the British Empire will remain sufficiently united to stand the strain of such an extreme policy as that declared in Paris. . . . [2]

The years since this Paris Conference and the present global war give us the answers to these questions.

The exigencies of the First World War and the demands of Government forced modernization—with government assistance. But the process did not continue in Great

[1] Cole, *op, cit.*, p. 111.
[2] National Foreign Trade Council, *op. cit.*, pp. 21–22.

Britain in the twenties and thirties to the extent that it did in the United States and Germany. (We are not primarily concerned here with extenuating circumstances.) The degree to which British production had lagged is best revealed by the fact that, taking British output per head in 1935 as 100, German production was from 101 to 107 and American from 229 to 238.[1]

Two other factors should be mentioned as important in limiting British production. Losses in man power during the First World War resulted in a serious shortage in England of industrial technicians, engineers, *et al.* The second factor was the policy of British Labor to limit output per man-hour, thus losing potential production for British industry.

Of industry in Great Britain prior to the Second World War, Mr. Herbert Morrison says,

> Before the war our industrial system was in many of its key areas, both in production and in distribution, not genuinely a system of private enterprise at all, but a system of private semi-monopoly governed by restrictive agreements and arrangements which were the absolute negation of enterprise. The result was that our country was falling into a decline. Its productive power was dropping back by comparison with other countries, particularly America. In plain English it was not earning as good a living as it could have done.[2]

To the factors enumerated above, therefore, Mr. Morrison adds another. May not the leaders who evolved this system of "private semimonopoly governed by restrictive agreements and arrangements" have confused at times the interests of the owners of this semimonopoly and national interests? Certainly the interests of the nation are not served by a decline in productive capacity.

[1] HILL, WALTER, Industry and Trade Editor of *The Economist*, in *Harvard Business Review*, Winter, 1944, p. 129.

[2] *The Daily Mail*, June 20, 1944, quoted by the National Industrial Conference Board, in *The Economic Record*, July, 1944, p. 55.

In relation to the relatively unfavorable position of British industry in output per head, it is of importance to note a policy that developed and, in practice, constituted an indirect subsidy to British industry.

The extensiveness of British foreign investments is well known throughout the world; their tie-up with British industry is best illustrated by developments in the period following the 1929 crash, from above 1933 on.

A partial embargo established by the British government in 1931 on the placing of foreign issues on the market stipulated that no issues for new capital could be placed on the English markets; refunding and conversion were allowed. This embargo was intensified later, and foreign loans were forbidden.

In April, 1933, there was an interesting, and significant, exception made to this embargo: the Danish government was granted special permission to raise a loan of £1,000,000 in London

> . . . to finance the construction of a bridge by a British firm using British steel. The next step was taken in July 1934, when the Chancellor of the Exchequer announced that the embargo would be relaxed in favour of two classes of foreign borrowers: members of the sterling bloc, and any other foreigners who would agree to use the proceeds of their loans in such a way as to benefit British industry directly. Thus, in fact, the embargo on overseas lending has been relaxed in favour of Empire and sterling bloc countries, and other foreign countries may also borrow in London if their borrowings are correlated with increases in British exports. . . . [1]

During this period, when American restrictions on the export of capital were for the purpose of preventing loans to countries which had defaulted on their debt payments,

[1] Royal Institute of International Affairs, *The Problem of International Investment*, pp. 78–79, Oxford University Press, 1937.

the Chancellor of the Exchequer appointed a Foreign Transactions (Advisory) Committee, which was to report on the general scope of the restrictions on foreign lending and on their particular application.

Following the government control of investments, the Board of Trade established an Export Credits Guarantee Department. Through this department the Government underwrote the export of goods.

Long-term credit operations had been conducted through the markets with their offerings of stocks and bonds; the Export Credits Guarantee Department was concerned mainly with the medium-term business, which locked up the resources of joint-stock banks, colonial banks, British-foreign banks, and banking houses too long for them to be able to conduct their short-term business and maintain the liquidity required of them.

There is one similarity between long- and medium-term credit operations. The Department employs criteria of the same kind as those adopted in the new issue market to determine the worthiness of a borrower, but, in other respects, there are considerable differences between the two sorts of transactions. In the first place an exports credit guarantee is given only in respect of British exports. Borrowers, in other words, are not permitted to purchase goods wheresoever they will. Secondly, no direct appeal to the public is involved; the only persons concerned are the borrower, the Department, the British exporter, and the latter's financial associates. . . .

The advantages of export credit guarantees over long-term capital issues arise from these differences. The former help directly to encourage British exports . . . there is as yet no sign that export credits are becoming less important; on the contrary, improvement in international trade has been accompanied by a tendency for the number of these credits to increase more rapidly than before.[1]

[1] *Ibid.*, pp. 88–89.

The credits might be extended for a period up to 10 years; they were allowed for as much as 75 per cent of the total transaction.

In 1936, a credit of £10,000,000 was allowed to Russia for the purchase of British exports, the orders for the entire amount to be placed within 14 months.[1]

In 1935, credits extended by the department were twice those of 1934, and the 1936 credits were showing a similar rate of progress; the total amounts were not given in the Royal Institute study.

An inquiry into the origins of this as a policy in Great Britain points to recommendations that were made by certain of the committees appointed during the First World War to investigate and report on probable postwar conditions and practices and to prepare for the resumption of business by British firms. Lord Faringdon's Committee[2] recommended the establishment of a British trade bank which "would be able to assist British interests in a manner that is not possible under existing conditions."[3]

The Balfour Committee on Commercial and Industrial Policy after the War (Cd. 9035) was able to report in 1918,

> As a result of the recommendations of the Departmental Committee the British Trade Corporation has been set up under Royal Charter, with a capital of £10,000,000, and a first issue of £2,500,000 was made recently. . . . When British capital is raised by its means for overseas enterprises, it will seek to secure that orders in connection with new undertakings are placed in this country. . . .[4]

[1] *Ibid.*, p. 90.

[2] Committee Appointed to Investigate the Question of Financial Facilities for Trade, Report to the Board of Trade (Cd. 8346), 1916.

[3] *Ibid.*, p. 4, paragraph 4.

[4] Final Report of the Committee on Commercial and Industrial Policy after the War (Cd. 9035), 1918, p. 40, paragraphs 191 and 192.

The Royal Institute says of direct overseas investments, "Such investment, too, is often correlated with exports of capital goods from the lending country. . . . "[1]

An important organization of British business firms, in relation to postwar developments, says in the field of foreign lending, "This lending would follow the usual practice of the export of capital goods or equipment to the borrowing countries. . . . "[2]

Competition resulted in the integration of British financial, industrial, and exporting interests as revealed in the above developments and in the support of the Government through the Export Credits Guarantee Department of the Board of Trade. Industry, exporters, marine-insurance firms, shipping companies, and other related lines of business have benefited substantially through the creation of this department within the Board of Trade and through the subsidy it provides by reason of its guarantee of British interests against losses in their export business.

Again, as in the First World War, the present war has forced modernization of plant and equipment, with the Government again bearing a heavy part of the cost of stepping up the production of British factories and workers.

As we look toward the postwar future, one of the most prominent features of plans for British industry is the stress on complete modernization, the investing in improved machinery of production, the maintaining of industrial research, the stepping up of the per-worker output of British factories. Results obtained during the present war have convinced British manufacturers and leaders in Government that their industry can be made as productive as any other. British planning indicates, also, that this

[1] Royal Institute, *op, cit.*, p. 45.

[2] The Association of British Chambers of Commerce, Report of the Special Committee on Post-war Industrial Reconstruction, adopted by the Executive Council of the Association, May 6, 1942, Sir Ronald W. Matthews, J. P. President, p. 11.

increased productivity will have as its major purpose the entry of Great Britain into postwar international trade with an enhanced competitive position.

That British thinking is strongly in the direction of developing international controls is evident from their plans proposed for an international monetary control system and from the expressed desire for an international cartel court of some type.

Of greater concern to us in this study, however, is the thinking of British leaders relative to the organization of British industry and the relation between private industry and Government. "How to establish the conditions of progress by a new and positive relationship between industry and the state has become the 'Great Debate' in Britain."[1]

Some clear indications as to what this "new and positive relationship" will mean have been given from time to time. One of these is found in a publication of the Federation of British Industries, Reconstruction Report, May, 1942, in the following: "In our opinion, the future organisation of industry should be decided by the industrialists, always subject to the overriding principle that it must be in the national interest."

Such was the thinking among British leaders up to the time of the presentation of the "White Paper."

The proposals contained in the White Paper contemplate a completely planned economy with the final control of such planning in the hands of Government rather than industry.[2]

This is not so radical a change in the British system as would appear, in that the coordination between the Government and organized industry in Great Britain has

[1] HILL, *op. cit.*, pp. 129*ff*.

[2] Full discussion of the White Paper (Cmd. 6527) is contained in Chap. VII in the treatment of postwar planning.

been so complete and intimate and so much in the national interests and in the interest of foreign trade and shipping that the adoption of a planned economy under government control is little more than a change of emphasis. It offers an assurance of the administration of this planned economy more definitely in the national interest.

In any event, we can be sure that British industry and trade will march ahead rapidly in the postwar world hand in hand with Government. History gives conclusive evidence that protection of the interests of British trade and industry will be the major concern of the postwar planning of the British government just as definitely as though this planning were under the control of industry itself. What will be accomplished is the placing of the authority of Government behind the decisions of the Economic General Staff. In the words of Churchill, "State enterprise and free enterprise must both serve national interests and pull the national wagon side by side."[1]

[1] Quoted by WALTER HILL, *Harvard Business Review, loc. cit.* Statement made on Mar. 21, 1943.

CHAPTER IV

INDUSTRIAL AND COMMERCIAL ORGANIZATIONS: PURPOSES, POLICIES, AND ACTIVITIES

Early British manufacturing monopoly and the reasons for its existence have been traced briefly in the preceding chapter. The question with which we are concerned in this chapter is that of the adaptation made by British industry in the face of keen competition from rising, vigorous, progressive industrial competitors.

Since the early and rising challenge to Great Britain's supreme economic position as a producer of manufactured goods did not result in modernization of her industries, how, then, did she meet it? Did her manufacturers demand a tariff for the preservation of their home markets? Was there clamor for subsidies to manufacturers and shippers?

An examination of the developments of the past 60 or 70 years in British industry and trade reveals the methods by which the leaders in industry and trade met the challenge to their supremacy in these fields. Such an examination is relevant for any country that seeks to maintain or enlarge its trade in the postwar world.

There could not be a return to the royal charters of the early period of English trade, but we find during the closing years of the nineteenth century and since a development of private trade associations, pools, conferences, etc., and the establishment of trusts, combines, and cartels in industry to an extent that is almost unimaginable to the average American, accustomed to recurrent attacks on trusts and cartels under the Sherman Antitrust Act and subsequent legislation.

Trusts and Combines. If we look first at the growth of trusts and combines in British industry, we find both vertical and horizontal combinations; in the field of transportation and shipping there are combinations that cover practically every phase of business involved in the total operations, from financing through shipbuilding, ship operating, brokerage, insurance, etc.

Study of the Stock Exchange Official Year Book reveals the fact that many of the big companies of today were registered between 1875 and 1900—the Cunard Steamship Company, Ltd., in 1878, and Furness, Withy and Company, Ltd., Sept. 16, 1891, to mention two of the leading shipping companies of today. The latter company was formed to amalgamate the business of Sir Christopher Furness and Edward Withy and Company.[1]

According to the report to stockholders by the late Lord Essendon, Chairman, Furness, Withy and Company, Ltd., 1938, the company has "subsidiary companies, which number fourteen. . . . "[2]

In addition to the 14 acknowledged by Lord Essendon in 1938, a reliable source lists in 1943 four additional companies as subsidiaries, bringing the total to 18.* Most of these companies have been formed by the amalgamation of other firms, and most of them have, in turn, from one to seven subsidiaries.[3]

Combines in the field of shipping are sometimes referred to as "the amalgamation of competing fleets." In this process of amalgamation more than 50 competing companies were absorbed by the following six companies, which

[1] Stock Exchange Official Year Book, 1943 ed., compiled and edited by the Secretary of the Share and Loan Department of the Stock Exchange, London, published by Thomas Skinner & Co., Ltd.

[2] *Stock Exchange Gazette*, July 30, 1938, p. 1650.

* Moody's Manual of Investments, 1943 ed., p. 2543.

[3] A detailed summary of this company's structure appears in Appendix D.

represent more than one-half of England's shipping interests:

1. Peninsular and Oriental Steam Navigation Company, Ltd.
2. Royal Mail Steam Packet.
3. Cunard Steamship Company, Ltd.
4. Furness, Withy and Company, Ltd.
5. Ellerman Lines.
6. Alfred Holt.

"They are each largely identified with separate spheres, and do not, therefore, compete directly with one another."[1]

Further tracing of this maze of companies and subsidiaries only reveals more of the type of combination outlined above, with joint ownership or some similar link leading on into another company and from that into another. What a field day our American "trust busters" would have if dropped into the midst of these combines and told to enforce the Sherman Antitrust Act!

Another evidence of combination and collusion, as attacked under the antitrust laws of the United States, is the system of interlocking directorates, the holding by one man of membership on the board of directors of many different companies. In this field the English have far outstripped us.

The late Lord Essendon, J. P., Chairman of Furness, Withy and Company, Ltd., a vice-president of the Council of the Federation of British Industries, was also on the board of 33 other corporations; he was chairman of the board or president of 27 of these.[2]

The Directory of Directors is interesting reading on the subject of interlocking directorates in the industry and business of Great Britain.

[1] FITZGERALD, PATRICK, *Industrial Combination in England*, p. 167, Sir Isaac Pitman & Sons, Ltd., 1927.

[2] For a complete list, see Appendix E.

That the system of interlocking directorates is not an isolated phenomenon is further attested by the fact that a report on trusts and combinations in British industry says, under Other Forms of Combination, " . . . There is still to be mentioned the control exercised over output and prices by the interchange of shares between nominally independent and competing companies, almost invariably accompanied by arrangements whereby directors of one concern sit upon the board of the other."[1]

Cartels. In addition to the building of associations, trusts, combines, and interlocking directorates, what other methods were used by British industry in its adaptation to foreign competition? This brings us to a discussion of cartels, so widely used in Europe in both domestic and foreign commerce. For purposes of this study we are interested in international cartels, which may be defined as international agreements for the purpose of controlling trade, prices, markets, sales quotas, or sales distribution.

Over a century ago some British exporters of coal met and agreed to certain export and price arrangements; thus we have what some British writers have called "the first cartel," although this agreement of 1834 differs in several details from cartels as they generally are organized today.

A more recent example relates to the steel-rail industry, in which international competition for markets resulted in private agreement and regulation. Speaking of the part played by British industrialists in the establishment of this cartel, one British economist says,

As early as 1883 the makers, then numbering about twenty, had not only eliminated competition among themselves, but had become associated with German and Belgian firms for the

[1] "A study of trade organisations and combinations in the United Kingdom," prepared for the Committee on Trusts by John Hilton, of the Garton Foundation. "Based upon evidence given and documents laid before the Committee on Trusts" (Cd. 9236), 1919, p. 19.

purpose of regulating foreign trade. This international association broke down, but stability was reached in 1904 by the inclusion of French and American firms, those of Spain, Italy, and Russia being added later. The agreement was notable in that it gave each group the exclusive possession of its home market and a fixed percentage of the pooled export trade. It worked satisfactorily until the war, when it naturally became moribund. . . . [1]

The details of these terms reached by an *international steel cartel* in 1904 are as follows:

The basis of the agreement as between the chief European countries was the allotment to each nation of a fixed percentage of output; British works producing 53.50%, German 28.83%, and Belgian 17.67%. France was to come in on a somewhat different basis, adding to the British-German-Belgian total of 100 units 4.8 for the first year, 5.8 for the second, and 6.4 for the third year of the agreement. Each country was then to apportion its share of the output to its constituent companies. All the large British firms were involved in the arrangement which, if successfully executed, seemed likely to control well nigh the entire world output.[2]

The above agreement was made effective in the summer of 1905, remaining in effect until 1914.

A comparison of steel production figures for Great Britain and Germany, both covered by the 1904 agreement,

Production of Steel (Thousands of Tons)				Quotas on Steel Rails (Percentage of European Exports)	
Country	1901–1915	1906–1910	1913	1904	1913
Germany	8,260	11,911	18,959	28.83	28.83
United Kingdom	5,136	6,164	7,663	53.50	53.50*

* Cd. 9092, *op. cit.*, Second Report, p. 26; and HOBSON, *op. cit.*, p. 212.

[1] FITZGERALD, *op. cit.*, p. 47.

[2] HOBSON, *op. cit.*, p. 212.

might raise some questions as to reasons for the establishment of the quota. The quotas on steel rails remained stationary for the period until the First World War broke up the agreement, while a comparison of the production figures shows the very pronounced increase in German steel production during the years under the agreement and the relatively slight increase in British steel production for the same period. One is forced to ask if the British interest in the international cartel may have been prompted by the hope that such an agreement would guarantee to British exporters of steel rails the percentage of the world market they held when the agreed quotas were worked out.

The facts of the unprecedented development of cartels in the years between the First World War and the present war are in the records and need not be recounted here, as are also the facts of the participation of British industry in those cartel arrangements.

The question of immediate concern is that of the British attitude toward cartels in the postwar world. Will their formation be further accelerated, or is there a veering away from the cartel system toward a freer, more competitive organization in industry? Restrictions on the entrance of American business interests into international cartel arrangements make this a matter of primary concern in the United States.

British industry is not in complete agreement on this question, but there have been some clear indications of the attitude of leaders relative to cartels. Lord McGowan recommended that "in future every international trade agreement[1] should in Great Britain be duly communicated to and registered with the Board of Trade."[2] *The Economist* counters with the assertion, "Indeed, 'communication'

[1] Cartel arrangements are generally referred to in Great Britain as "international trade agreements."

[2] *The London Times*, July 25, 1943.

and 'registration' are not enough. After all, 'international trade agreements, are the business of the Government. . . .'"[1]

Since the essential function of international industrial cartels is the regulation of competition in foreign markets, cartels are thus engaged in the making of foreign-trade policies—sometimes with the silent understanding or even the active assistance of governments, at other times in direct conflict with governmental plans and arrangements. The closeness of relations between business and Government in England in general would ensure "silent understanding," even "active assistance."

Relating the essential function of international industrial cartels to the stand of *The Economist* as given above, there is clearly a substantial element in British industrial leadership that will demand close supervision of cartel arrangements by the Government in the postwar world. It is interesting here to quote Sir Robert Walpole, "who said that the country gentlemen, poor, meek souls! came up every year to be sheared; that they laid mute and patient whilst their fleeces were taking off, but that if he touched a single bristle of the commercial interest, the whole stye was in an uproar. It was indeed shearing the hog—'great cry, and little wool.'"[2] Apparently the commercial interest have dropped their great cry at being touched by the Government.

This demand of the commercial and industrial interests for government supervision and support, even control to an agreed extent, is a change in method from a century ago. But today industry, commerce, and Government are closely allied, through their common concern as to Great

[1] *The Economist*, July 31, 1943, p. 147.

[2] Quoted by John Randolph, speaking before the House of Representatives, Mar. 5, 1806, on Our Attitude towards Great Britain, *The World's Great Classics*, Orations, American Orators, Vol. I, p. 354.

Britain's position in the world markets and in the general economic life, as well as through personnel. As Thomas North says, "Indeed, members of the government are likely themselves to be leading industrialists. . . . "[1]

Thus the close cooperation between business and Government as envisioned for postwar Britain points in international trade direct toward even greater support of British exporters and British world trade by Government, possible further development of the economic imperialism, the neomercantilism, that has characterized British foreign trade since the closing years of the nineteenth century.

If other industrialists are to have access to world markets on an equal footing with the British, may not this attitude force the establishment of an international governmental body that will regulate and control not only cartels but all international markets and trade?

> The choice seems to be between returning to the jungle law of unregulated competition or to adopt the more modern and realistic view, which the Committee shares, that this jungle law should be replaced by planning designed to raise world prosperity by orderly methods.[2]

The power of international cartels to discriminate against purchasers from those countries that were not a part of the international trade agreement was brought home to the United States so forcibly that the Webb-Pomerene Act became law in 1918. By this legislation United States business firms were to be allowed to join cartels so long as these combinations had no effects whatever on the domestic production and marketing of those firms; actually, this legislation had relatively little effect for the reason that the domestic and foreign trade of companies cannot be totally separate transactions, and no American

[1] Britain Today, *Harvard Business Review*, Spring, 1943, p. 296.

[2] International Trade Policy, Report of the Federation of British Industries, International Trade Policy Committee, February, 1944, p. 7.

business firm cares to invite prosecution under the antitrust laws of this country.

The power of an international cartel was brought very forcibly to the attention of Americans a few years ago when the rubber producers' cartel, mainly English, restricted production and forced the prices for American users up to $1.50 per pound. May not this indicate that if we are to import raw materials, we may be forced to join these cartels or be robbed by them?[1]

Trade Associations. Of greater interest than the cartels and more typically British, however, are the trade associations, which apparently have been a part of the economic and commercial fabric of Great Britain for a long period; Adam Smith (1723–1790) observed their activities to the extent that he said, "'People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices.'"[2]

Though Adam Smith may not have seen the formal organization of trade associations, by 1918 they merited this statement:

> British trade associations make little parade of their existence or achievements, but there are few corners of British industry in which some kind of trade association is not to be found, and some of them can show a thoroughness of organisation not easily surpassed. What is notable among British consolidations and associations is not their rarity or weakness so much as their unobtrusiveness. There is not much display in the window, but there is a good selection inside.[3]

[1] A full discussion of cartels and of their relationship to American laws and practices will be found in a recent publication of the National Foreign Trade Council, entitled Memorandum on Regulatory Measures Affecting American Foreign Trade, September, 1944.

[2] CURTIS, ROY EMERSON, *The Trusts and Economic Control*, p. 186, McGraw-Hill Book Company, Inc., 1st ed., 1931.

[3] Cd. 9236, *op. cit.*, p. 17.

Stepping inside, we shall let representatives of these trade associations speak for themselves:

In the Foreign Market.

The Chairman of an important Metal Association stated that:—

"The cause of the formation of the Association was the fact that this industry in Great Britain had been very unremunerative for many years, and had stood in danger of being crushed out of existence by foreign competition and by too much competition among manufacturers at home, and it was realised that if the industry was to be saved at all the manufacturers would have to come together and form an association. . . . By securing remunerative prices in the home market they could make a successful bid against foreign competition in the export trade. They had a fund, a fighting fund, for the special purpose of subsidising members who found it necessary to sell at less than an economic price in order to cut out foreign competitors. That might be called meeting dumping by dumping, but he would not agree that British firms dumped in the aggregate much more than foreign firms. . . . "

The Chairman of a number of important Associations stated that:—

"In the past it had paid Germany handsomely to export a large part of her steel products at a loss. In the future it will pay this country to do the same. He had no doubt at all that it would be a sound policy to sell in foreign markets at a loss. It was true that 80 per cent. of their output went abroad, so that it was not any matter of dumping an occasional surplus that the home market could absorb, but a large proportion of their exports went to our own colonies, and by getting some little preference there and sufficiently good prices at home the industry would be able, as organised in its Conference, to undersell Germany or America in such markets as South America, even if that meant selling at a loss. About 60 percent. of their output was sold within the Empire and 40 per cent. outside. A slightly increased

preferential price on the 60 per cent. would enable them to hold the 40 per cent. against competitors."[1]

The report records that the Ministry of Munitions had found associations beneficial to deal with in war:

. . . generally the officials of the Ministry appeared to be of opinion that the Associations had made for more economical production and for an improved quality and variety of output, and for a very beneficial interchange of technical knowledge, and that, although most associations regulated prices, the consumer in general had not suffered through such regulations.

. . . On the other hand, when it comes to Foreign competition, there is no doubt that such combinations are extremely beneficial. . . . [2]

The Committee found that there was

. . . a general agreement among representatives of Associations before us that one of the beneficial results of the formation of Associations sufficiently powerful to control and maintain prices in the Home market was that it enabled British Manufacturers to extend their output by selling their products at a lower price, or even at a loss, in foreign markets. . . . [2]

Further, the Committee found

. . . a unanimous opinion on the part of members of these Associations that their effect is not only beneficial to the efficient carrying on of business, but essential in many cases for the maintenance of export trade and for effectively meeting foreign competition.[3]

The report of the Committee on Trusts is a summation of the experience and purposes of trade associations in Great

[1] Report of the Committee on Trusts, appointed in 1918, by Command of His Majesty, Cd. 9236, *op. cit.*, p. 7.

[2] *Ibid.*, p. 7.

[3] *Ibid.*, p. 4.

Britain; the recommendations of the committee—government power to investigate and to correct abuses—were never adopted.

Since the activities of trade associations are by their very nature such that no parade is made of them, there is practically no information concerning them in current economic and trade literature. *The Economist*, July 3, 1943, says, "By the time the war broke out, British production and distribution were dominated from top to bottom by trade associations. . . . "[1]

A recent issue of a British magazine, emphasizing the general lack of information in regard to trade associations, says,

> . . . it is probably no exaggeration to reckon their growth one of the most significant economic developments of the last quarter of a century. In numbers alone the growth has been phenomenal: whereas there were in 1919 only about 500, there may, it is suggested below, be as many as 2,500 national or regional trade associations in the United Kingdom to-day. . . . [2]
>
> The promotion of exports has long been among the purposes of some associations. This will become more prominent with the formation, since early in 1940, of some 280 Export Groups. . . . [3]

In the Home Market. The quotations above from the report of the Committee on Trusts make very clear the aims and the methods of the trade associations in foreign markets; this report reveals with equal clarity the aims and methods of the trade associations in the home market.

One large Association of metal manufacturers in effect imposes an effective restriction upon foreign competition by an agreement made between the Association and a federation of the distributors or wholesale merchants, whereby the federation agrees not to

[1] *The Economist*, July 3, 1943, p. 1.

[2] *Planning*, No. 221, May 12, 1944, published by Political and Economic Planning (P.E.P.), a "completely independent organisation," p. 1.

[3] *Ibid.*, p. 22.

import any foreign goods of the kind manufactured by the Association, and receives in exchange a guarantee of a larger distributor's profit than was previously current in the trade. . . . [1]

Another and a very effective method of shutting out from the home market the competition of independent or outside English as well as foreign producers is revealed in the following quotation:

A further restriction upon the possible competition of British manufacturers outside the Association is secured by the action of the Merchants' Federation, who give rebates on discounts to the retail trade conditional on exclusive dealing with members of the federation, who in their turn only stock the goods manufactured by members of the Association. In the case of a large amalgamation controlling a great proportion of the supply of an article in domestic use, all sale contracts with retailers contain a stipulation that the retailer shall not sell any other make of the goods in question at a lower price. This leaves it open for a competing manufacturer to sell to the retailer at a lower price than the Amalgamation, but deprives him of the possibility of endeavoring to create a public demand for a new brand by undercutting the price of that handled by the Amalgamation. But in a large proportion of the associations with regard to which evidence was laid before us, so great a proportion of the particular trade is included in the combine (in some cases as much as 98 per cent.) as to render it unnecessary to impose restrictive conditions in order effectively to maintain a practical monopoly.[1]

According to *Planning*, the most widely used weapon for monopolizing the home market is that of deferred rebates, about which the Committee on Trusts said in 1918,

The system is in extensive use in all branches of industry. It consists in returning to the customer (merchant, retailer, or actual user, as the case may be) at the end of each six or twelve

[1] Cd. 9236, *op. cit.*, p. 4.

months a rebate equal to 10, 12, or 15 per cent. on his purchases, the condition attached to the refund being that he shall not, during the period, have bought any of the goods produced by the combination from anyone except the combination. The effect of the arrangement is that if at any time during that period the customer is offered an article of better value by an outside maker or by a new firm starting in the industry the buying of that article will cost him anything from one to twelve months' accumulated rebates. . . . [1]

In connection with the system of price setting as practiced through trade associations, an effective weapon has been developed for keeping in line any dealer who might attempt to introduce the products of a foreign competitor or of an English independent. The Committee on Restraint of Trade (1931)

. . . found that the imposition of conditions upon retailers and wholesalers regarding the re-sale prices to be charged is a widespread and growing practice among manufacturers; and that it is common to enforce the conditions where necessary by threat of individual or joint boycott, or by actual boycott.[2]

Apparently some of the retailers or wholesalers against whom the boycott was directed took their cases to the courts of England, for we find this statement:

It may be noted also that in a number of cases the courts have upheld the legality of trade boycotts and other devices by which trade associations seek to strengthen their positions against outside competitors. . . . [3]

In the United States the tariff has been used originally to protect the infant industries of the new republic, later to secure advantages in the domestic markets for American

[1] *Ibid.*, p. 27.

[2] Report of Committee on Restraint of Trade, 1931, No. 51–189, His Majesty's Stationery Office, p. 7.

[3] CURTIS, *op. cit.*, p. 292.

industry; it is possible for foreign goods to be imported and sold in the United States, in spite of the tariff wall. It is possible, also, that some few British wholesalers and retailers might be willing to bear the financial loss of up to 12 months' accumulated rebates of from 10 to 15 per cent of their purchases—but what wholesaler or retailer would invite the use of the boycott against himself?

One is forced to the conclusion that practically the oniy articles of foreign manufacture that can be sold in Great Britain are those that British manufacturers in trade associations do not produce; such is the power of trade associations and other commercial organizations in the United Kingdom.

Federation of British Industries. Another type of organization that figures largely in British industry and commerce is that which has representatives from many different kinds of industry and/or trade—an over-all organization that can speak for industry or for shipping or for trade.

Among the most important of these are the Association of British Chambers of Commerce, the Chamber of Shipping, the British Empire Producers' Organization, the Empire Economic Union, the Empire Industries Association, the National Council of Industry and Commerce, the National Union of Manufacturers, Inc., and the Federation of British Industries.

Since the Federation of British Industries has a very large membership and apparently is one of the most active of these organizations, a brief presentation of its setup and scope of work is given below.

The *Annual Report*, 1930, of the Federation of British Industries, commonly referred to as the "F.B.I.," says in relation to the report of a special Empire Sub-Committee appointed "to prepare the considered views of the Federation as to the policy to be recommended to the Government with regard to the questions which would come under

consideration at the Imperial Conference" that "a report was finally decided upon, which received the approval of the Grand Council in February, 1930, as the considered view of Industry." It is safe to assume, then, that F.B.I. proposals represent British Industry.[1]

The Employers Parliamentary Association began in 1915 to work for an establishment whose main object was to be "'to afford a means for bringing the industrial interests of the country as a whole into closer touch with the Government, not in any spirit of hostility, but with the view of achieving complete and cordial co-operation between the State and industry for the national advantage.'"[2]

The Federation of British Industries was organized in 1916, with a membership of three associations and 50 individual firms. So rapid was its growth that in November, 1919, Sir Vince Gaillard could say in a meeting of the F.B.I., " . . . directly and indirectly we represent 18,000 firms of a combined capital of £5,000,000,000." In June, 1923, the Federation membership was listed as 167 Associations and 1,798 firms; since 1923 its position has been greatly strengthened.

Speaking of the formation of the Federation of British Industries, the Labour Research Department says,

> It meant that there had arisen new forces of cohesion which were to exercise a most powerful influence on the activities of governments and the organs of popular opinion. The attitude to industrial policy, to trade rivals and to the working class was to be carefully planned. . . .
>
> Meantime the bodies for which it speaks have certain interests in common as against other forces. What are these common interests? First, the national interest of British capitalism as against foreign trade rivals. To further these interests the F.B.I.

[1] *Fourteenth Annual Report*, Federation of British Industries, 1930, p. 35.

[2] Studies in Labour and Capital, The Labour Research Department, No. V, p. 7, Labour Publishing Company, Ltd., London, 1923.

appoints trade commissioners abroad and fights resolutely against any invasion of the home market by foreigners. . . . [1]

The second and third common interests relate to taxes and labor.

For the purposes of administration the Federation of British Industries has the following departments: technical; intelligence and statistics; transport; contracts, etc.; industrial art; taxation, insurance; exhibitions; travel; trade openings; F.B.I. Register; membership; and finance.

The Overseas Organisation has sections as follows: America and Far East, Empire, Europe, and Near East.

District offices are maintained in Birmingham, Bradford, Bristol, Leeds, Leicester, Liverpool, London and home counties (south), Manchester, Newcastle, Northampton and home counties (north), Nottingham, and Sheffield; the Scottish office is in Glasgow.

Representatives of the F.B.I. are in every country, not only serving the interests of British industry in those countries but also securing information on the needs of the countries, on the activities of competitors, working closely with consuls and diplomatic representatives, making secure British supremacy in world trade.

The Grand Council of the Federation of British Industries for 1939–1940 was composed of the following: president, past presidents—12, vice-presidents—46, district representatives—23, coopted members—8, industrial group representatives from 24 groups—390, a total of 490 members.

The Executive Committee for the same period had 158 members, as follows: president, all past presidents, vice-presidents—16, district representatives—12, industrial group representatives—99, all of whom are members of the Grand Council, plus representatives from 7 districts,

[1] *Ibid.*, p. 5.

18 coopted members, and 5 ex-officio members, not a part of the Grand Council.

The industrial group representation is set up as follows:

Name of Group	Number of Sub-groups	Number of Members on Grand Council	Number of Members on Executive Committee
I. Mining, Quarrying, and Allied Trades	9	38	13
II. Mechanical Engineering	37	56	13
III. Shipbuilding, Marine Engineering, Constructional Steel Work, and Allied Trades	3	18	5
IV. Electrical Engineering	4	19	3
V. Iron, Steel, and Allied Trades	12	42	8
VI. Textiles	17	62	15
VII. Glass and Clay Products	4	11	5
VIII. Printing, Printing-ink Manufacturers, Type Founders, Process Workers, and Allied Trades	6	8	2
IX. Chemicals, Fertilisers, and Explosives	5	22	4
X. Foodstuffs and Tobacco	14	19	4
XI. Agriculture	2	None	None
XII. Building Trades	3	3	2
XIII. Rubber and Asbestos	3	8	2
XIV. Public Utility	14	11	4
XV. Miscellaneous	17	15	2
XVI. Nonferrous metals	6	13	2
XVII. Oils and Fats (including Soap, Candles, and Margarine), Oil Seed Crushing, and Its By-products	5	6	3
XVIII. Paper Making, Manufacturing Stationery, Envelope Making, Paper-bag Making, Box Making, and Allied Trades	8	8	2
XIX. Banking and Insurance	2	2	2
XX. Woodworking	6	3	2
XXI. Cutlery, Jewellery, Electroplate, and Allied Trades	11	5	2
XXII. Brewing, Distilling, and Allied Trades	4	6	1
XXIII. Fisheries	2	None	None
XXIV. Leather and Allied Trades	5	15	3

All branches of British industry are represented in the Grand Council, agriculture and fisheries not properly coming under the heading of industry.

In addition to the organization outlined above the Federation has a special department that deals with inquiries from firms in England or abroad who wish to purchase

British goods or products and with applications from firms desirous of securing the representation of British manufacturers; these services are rendered without charge.

One of the effective tools of the Federation is the F.B.I. Register of British Manufacturers, which, in addition to being a directory of the Federation, includes a complete listing under the following headings: products and services (names of British companies supplying goods and services, which are listed alphabetically, as: Abattoir Plant—seven companies, Abrasive Machinery—six companies, Abrasive Machinery Accessories—nine companies); an address section (giving addresses of companies listed under products and services); and brands and trade names and trademarks (name of firms producing various brands).

The importance of this tool is attested in the 1936 *Annual Report:*

> The Register continues to serve as a valuable liaison between members of the Federation and their actual and potential customers in all countries of the world. As an integral part of the Federation's service to its members it is not produced for profit. It is distributed by the Federation to those public bodies and private firms who can make use of it as a work of reference to sources of supply in Great Britain.
>
> The usefulness of the Register is evidenced in the letters acknowledging receipt of the present edition, in which between 400 and 500 names of firms are mentioned as having received orders or enquiries through its medium.
>
> Great care is taken in keeping circulation lists up to date. These are subject to constant revision from reports received from F.B.I. Correspondents in different countries, and the trend of world-affairs is reflected in the adjustments to the circulation lists, resulting in the increase or in the reduction in the number, or the complete suspension, of books sent to certain countries. Newly-established Empire and foreign buying houses are constantly added. The Register is therefore keeping in touch with all active buying houses throughout the world, and the high

opinion held in regard to the value of the book as a Buyer's Guide is indicated in a constantly increased demand.[1]

The 1938 *Annual Report* continues:

The demand from all parts of the world for copies of the "F.B.I. Register" continues to increase, and the necessity for its publication annually is more than ever clear, in order that up-to-date information may be given. . . . The increasing membership of the Federation makes the publication each year more fully representative of British Industry, and this in turn increases its value to actual and potential buyers of British goods.[2]

The extent to which the F.B.I. initiates moves for solving any problems faced by British industry is clearly revealed in its annual reports.

The *Fourteenth Annual Report* (to Dec. 31, 1930) says,

As it was recognised that many Organisations representing Industry in one form or another were engaged in the task of pressing for a change in fiscal policy, the President invited them to co-operate in forming a Co-ordinating Committee, whose task would be to see that, so far as possible, overlapping was avoided. All these bodies agreed to participate in the work of this Committee, which is constituted of representatives of:

The British Empire Producers' Organisation
The Empire Economic Union
The Empire Industries Association
The National Council of Industry and Commerce
The National Union of Manufacturers, Inc.

in addition to the Federation's representatives.[3]

In the same year the F.B.I. took the lead in talking with the Dominion representatives, in London for an Imperial Conference, concerning

[1] *Twentieth Annual Report*, Federation of British Industries, 1936, p. 34.
[2] *Twenty-second Annual Report*, Federation of British Industries, 1938, p. 33.
[3] *Fourteenth Annual Report*, Federation of British Industries, 1930, pp. 8 and 9.

. . . the desirability of the Federation, as representing British manufacturers, discussing with the representatives of the manufacturers in the various Dominions the possibility of co-operation which would facilitate the negotiation of inter-Empire trade agreements for the furtherance of inter-Imperial trade. . . . [1]

In another field the Federation asserted its position:

As stated in the last Annual Report, negotiations for the devising of a system of consultation between the Federation and the Trades Union Congress reached a successful conclusion at the end of 1929. During the past year, advantage has been taken of this to arrange for consultation upon two important questions, the evidence which the two Organisations were giving before the Government Committee on Finance and Industry, and the recommendations which were put forward to the Government in regard to the Imperial Conference. . . . [1]

The 1931 *Annual Report* continues:

It will be remembered that prior to the 1930 Conference [Empire] a Joint Committee was formed under the Chairmanship of Sir Gilbert Vyle, named the British Preparatory Committee for the Imperial Conference. It was composed of representatives of the Federation, the Association of British Chambers of Commerce and the Chamber of Shipping. That Committee has been reconstituted with the same participating members, under the name of the British Committee on Empire Trade, to prepare for the forthcoming Imperial Conference at Ottawa.[2]

. . . The Federation attaches the utmost importance to the development of this policy, and steps have been taken to see that industry will be in a position to give the fullest possible advice to the representatives of His Majesty's Government at the forthcoming Imperial Conference in Ottawa, on which so much depends.[3]

[1] *Fourteenth Annual Report*, Federation of British Industries, 1930, p. 9.
[2] *Fifteenth Annual Report*, Federation of British Industries, 1931, p. 25.
[3] *Ibid.*, p. 7.

The Grand Council trust that the report of the leading activities of the Federation in 1936, contained in the following pages, will bring home to members the vast scope of the field which the Federation is endeavouring to cover in the interests of British Industry.[1]

Another result of the initiative of the Federation is revealed:

Throughout the summer of 1937, Mr. S. F. Ferguson, Director of the Australian Association of British Manufacturers, visited this country. It will be remembered that that Association has represented the Federation in Australia now for many years, with increasingly happy results.[2]

The Federation has correspondents and representatives throughout the world.

The Government recognizes the representativeness of the F.B.I. to the extent that, when the Board of Trade has some new ruling or law under consideration relative to commerce or industry, the F.B.I. is asked to sound out its members on the proposition and to send up trial balloons to get the reaction of the public. When this has been done by the F.B.I., the Government is very apt to follow through according to the reports of the F.B.I.

Conversely, when British industry and commercial interests have plans and desire the cooperation of the Board of Trade and His Majesty's Government, the F.B.I. makes the desired overtures and secures the necessary cooperation; conflicting desires on the part of industry are resolved within the F.B.I. before the approach is made to the Government, and officials, the Board of Trade, and Parliament know they are dealing with industry when they deal with the F.B.I.

[1] *Twentieth Annual Report*, Federation of British Industries, 1936, p. 5.
[2] *Twenty-first Annual Report*, Federation of British Industries, 1937, p. 23.

Outlook for Commercial and Industrial Organizations. A high degree of self-discipline and of planning has developed in British industry through voluntary associations and other types of commercial and industrial organization. What are the postwar prospects in relation to the continuance of these associations and organizations and of planning?

Early in 1942, the Board of Trade requested the principal employers' and commercial organisations of England to submit their ideas and proposals on postwar economic policy. In response, reports were submitted, during May and June 1942, by the four principal employers' associations—namely, the Federation of British Industries, the Association of British Chambers of Commerce, the London Chamber of Commerce, and the British Employers' Federation (or National Union of Manufacturers). As these four associations represent in a broad way British business and industry, their reports may be regarded as more or less official statements of the position of British industrialists and businessmen. . . .

The proposals for industrial reorganisation differ in detail but all feature what is referred to as economic or industrial "planning."[1]

The F.B.I. maintains its belief in and support of voluntary association and recommends that each industry or section of industry "should possess a Trade Association with clearly defined functions to suit its needs, and so organized as to be capable of their efficient performance. . . ."[2]

The British employers' associations draw the conclusion that the postwar international trading system must be organized on a new basis. It must be a directed system in the sense that the

[1] LORWIN, LEWIS L., *Postwar Plans of the United Nations*, pp. 103*ff.*, Twentieth Century Fund, Nov. 22, 1943.

[2] Reconstruction: Report by the Federation of British Industries, May, 1942, p. 24.

exporters themselves must be organized to carry on trade cooperatively and that they must have the aid and guidance of the government.[1]

The postwar outlook? Trade associations increased very greatly both as to numbers and power during the First World War; the same is true of their evolution during the Second World War. Their influence and power in postwar Great Britain are indicated in their numbers: " . . . there may . . . be as many as 2,500 national or regional trade associations in the United Kingdom today. . . . " and "since 1940 some two hundred and eighty Export Groups have been formed."

A very lively discussion has been going on both in industry and government circles as to the adaptability of these British associations and organizations and the practices of the past as related to the postwar period.

These discussions have indicated a wide divergence of opinion as to methods among British leaders in industry, commerce, finance, and Government. An analysis of statements and proposals of policy and methods reveals the fact, however, that there is complete agreement that the self-discipline of industry must continue, that planning and execution must be made more thorough, more complete, and more effective. And the above objectives are to be attained through the voluntary organizations and associations of industry. Some, in fact most, envisage an increased role for Government; the part played by Government would be in cooperation with the voluntary associations, however, and would strengthen rather than supplant these organizations.

Such was the state of British opinion up to the time of the appearance of the White Paper, which provides for a completely controlled economy with a shifting of the final

[1] LORWIN, *op. cit.*, p. 109.

control from organized industry to Government. While at first this appears a radical step, it is in reality a natural development, an extension of the control that industry itself has exercised through the instrumentalities of trade associations and agreements and international cartels.

The strength of these influences in British economic life is indicated by a statement in *Planning* (May 12, 1944) that their growth is "one of the most significant economic developments of the last quarter of a century." A quarter of a century ago trade associations already dominated the economic life of England; the quarter century since 1919 has seen merely an increase in their number and power.

The White Paper seems to assure us that British industry and foreign trade will be controlled in the national interests, and that free competition as we understand it in America will exist only in so far as it fits in with the pattern of a nationally controlled economy.

CHAPTER V

RELATIONSHIP BETWEEN GOVERNMENT AND BUSINESS IN GREAT BRITAIN

That there existed almost complete harmony between business and Government in England must be apparent in the history of encouragement given, laws passed, monopolies granted—all the aids of varying types that English commercial and industrial interests have received, beginning with the policy established in 1381 of discriminating in trade in favor of English vessels. Many of those aids are related in earlier chapters of this discussion and need not be repeated here.

For Americans, accustomed to frequent and recurring clashes between business and government, there needs to be some further examination of the basis of this harmony; on what does it rest?

As pointed out earlier, certain English monarchs themselves ventured into the commercial realm; others made gifts to venturers and thus ensured to themselves an interest in any profits or gains from the ventures. Government officials and business leaders were then—and still are—the same individuals, largely. William Benton, well-known American business man and vice-president of the University of Chicago, speaks of "the close affinity which exists between business groups and government groups. . . ."

> In England, the ruling class has always been the government. . . . The ruling class has never feared its government. Why should it fear it? On the contrary, it views government as a

tool to be used in its interest, for its group, as well as for what it conceives to be the national interest. . . . [1]

Aside from the advantages that accrue to industrial, commercial, and landed interests from having many of their leaders in the Government, salaries paid by the Government have been such that it has been necessary to have a private income to supplement the government pay in important domestic and diplomatic positions.

Cooperation between business and Government has been so close and so continuous for several centuries that it is difficult to know where the activities of one end and the authority of the other begins.

One of the reasons for this situation doubtless has been the preeminence of London as the foremost commercial and financial center of the world and as the political capital of the British Empire and one of the great political centers of the world. Business men and government leaders have met constantly, in the normal course of their activities and in social gatherings—they belong to the same set. There has been a chance for an interchange of ideas, for an understanding of mutual problems, and for a discussion of differences, a chance that can exist only when the business-financial capital and the political capital of a country are centered as they are in London.

The practice of certain English rulers of investing funds in commercial ventures and of bestowing gifts for the furthering of commerce and the participation of leading government officials in trade and commercial enterprises doubtless were important in the growth of the present-day attitude in Great Britain as to the provision of venture capital.

The admiralty provided the funds for building the first experimental steam vessels; when their success was assured,

[1] *The Saturday Evening Post*, June 10, 1944, p. 105.

private capital entered the field. Today in the fields of aviation and broadcasting the Government finances, owns, and operates the facilities. One of the important questions for postwar settlement is whether Government will remain in these fields or will turn them over for the investment of private funds.

In other cases, such as in some areas of foreign trade following the First World War, private funds are invested but the Government guarantees these funds against loss. "British businessmen use the government to remove the loss from the profit-and-loss system. . . . "[1] Government either provides or guarantees venture capital where risks are involved.

British private organizations for the furtherance of world trade have been discussed in Chap. IV. Government aid in this field, developed since the seventeenth century, has been of a very high order.

One of the early records of the desire for information and for trained and informed agents to serve British traders is that of the sending of 10 young men, in 1557, to Russia; these men were to act as agents for the Muscovy Trading Company, to travel in the country, to secure information as to its produce, its markets, and its needs, and to prepare goods for economical transport to England.

As other trading centers were established, the network of commercial organization grew, with the result that certain of the functions of the agents and representatives were assumed by the Government.

Various circumstances tended to strengthen this commercial intercourse, and, not the least among the number, may be mentioned the establishment of the Board of Trade, which, though originally formed under Charles II, in 1668, only became a permanent establishment in 1696. . . . [2]

[1] BENTON, WILLIAM, Business in Britain, *Life*, Oct. 25, 1943, p. 105.
[2] LINDSAY, *op. cit.*, Vol. II, p. 209.

The Board of Trade today is still strengthening this commercial intercourse of the United Kingdom and the Empire.

The Board of Trade, which corresponds somewhat to the U.S. Department of Commerce, is organized as follows:

I. Department of Commerce and Industry.
   A. Commercial relations and treaties.
   B. Overseas Trade (Development and Intelligence).
      1. Overseas Division, subdivided geographically.
      2. United Kingdom, by trades and industries.
      3. Exhibitions Division.
   C. Industries and Manufacturers.
   D. Industrial Propaganda.
   E. Industrial Purchase and Transport.
   F. Statistics.
   G. General Economics Department (a strong advisory council).
II. Department of Public Service Administration.
III. General Departments.

Certain special types of information are distributed. Form K is a list of British and British-approved firms. No information is to be given to firms other than those listed; a promise to that effect is exacted. The Special Register is a highly confidential and secret document; information is given on openings for trade abroad; reports on foreign competition and competitors, up-to-date information on industries overseas, and a summary of general financial and commercial conditions complete the information contained in The Special Register.

The main concern of the Board of Trade is the development of trade; its responsibility is that of thinking out and assisting national policy for industry and commerce.

Private Resources Available to Government. The extent to which the Government of the United Kingdom feels free to draw on the resources of the propertied class of

Britain is well illustrated in the use of American securities for the control of sterling exchange on the New York market in the First World War.

The plan as worked out in the latter part of 1915 provided for the borrowing or the purchase of American securities held by British investors; the releasing of securities to the Government was optional.

Since this did not result in the deposit of the desired amount of securities with the Government, a compulsion tax was levied on holders who did not voluntarily surrender their holdings.

The original plan provided three alternatives:

The first of these may be called the purchase scheme which provided that the government might buy such securities outright at the New York quotation and pay for them in five per cent Exchequer bonds. The second part permitted the owner to loan his securities to the government for use as collateral to Treasury loans. If he did this the owner continued to receive interest or dividends and a bonus of one-half of one per cent on the face value of his loaned holdings. The third part gave the government the option of selling the borrowed securities, if necessary to do so, in which case it agreed to add 2½ per cent to the average of the high and low New York quotations on the day of the sale. In the course of a few months the plan was materially elaborated and two types of schemes set up, known as A and B.

. . . Scheme A permitted the deposit of securities for two years with the option of transferring them to the Treasury for a longer period under the B part of the plan, and at the same time permitting the sale of the securities under certain conditions. The owner was to have in addition to his dividends or interest ½ per cent on the face value of his security. In case the Treasury found it necessary to sell he was to have 2½ per cent on value. To the lender was preserved the right to sell providing the securities were released in New York against payments to the Treasury agents there. In case the Treasury sold the lender could buy back

inside of 14 days by the payment of the market price in dollars. On December 16, 1916, the A part of the scheme was withdrawn and the transactions carried on under the B plan.

This plan provided for borrowing securities for five years though the Treasury was permitted to return them on three months' notice after two years. Under any circumstances the lender was to receive ½ per cent per annum on the face value whether sold or not. If they were sold the lender could require the government to replace his securities of the same character and value. If they were sold he could have the deposit returned in cash with a bonus of 5 per cent together with the accrued interest. Negotiable certificates were issued for all securities lent to the Treasury. . . . How far the scheme went in bringing securities to the Treasury is well indicated by the statement in *The Times* to the effect that of the $4,500,000,000 of American securities, not less than $2,000,000,000 had been deposited by their English holders.[1]

In the discussion of the Third War Budget, September, 1915,

. . . Mr. Worthington Evans raised a new point. The minimum prices placed upon Stock Exchange securities had practically demobilized some £2,500 millions of our best securities; he suggested that the Government should arrange for advances to be made to the owners of such securities in order that they might more easily subscribe to War Loans. Again, British citizens held £4,000 millions' worth of foreign securities which ought to be somehow under Government control so that they might be used to support foreign exchanges; he proposed that the owners should be compelled to register them with the Government. . . .[2]

[1] Carnegie Endowment for International Peace, Preliminary Economic Studies of the War, McVey, Frank L., *The Financial History of Great Britain*, 1914–1918, p. 65, Oxford University Press, 1918.

[2] Carnegie Endowment for International Peace, Economic and Social History of the World War, British Series, Hirst, F. W., and J. E. Allen, *British War Budgets*, p. 92, Oxford University Press, 1926.

The extent to which British foreign investments were liquidated is revealed by the Rt. Hon. Sir Austin Chamberlain: " . . . We had sold £1,000 million of our foreign investments. . . . "[1]

Other sources place the liquidation at £900 million.[2] These figures represent about 20 per cent of the British overseas investments of that time.

In July, 1944, Ernest Bevin said, "We have spent everything in this struggle"; Lord Woolton said, "For a half century or more we spent our savings overseas. Now we have sold all we have. . . . "[3] While the two gentlemen are misinformed or unduly pessimistic, it is interesting to note that private holdings of foreign securities have been drawn on to finance war purchases, as in the First World War.

Foreign assets, estimated at £4,200 million at the outbreak of the Second World War, have been mobilized by the British government as in the 1914–1918 period.

. . . at the outset these accumulated resources were widely scattered, not only in physical location, but also in ownership among a multitude of individuals, firms, companies and other corporate bodies. . . . Mobilisation was, therefore, the first essential, while the purposes to which the resources might be applied, under central supervision, had to be clearly defined, and means invented to ensure that other purposes would not be served. . . . [4]

The arrangements for mobilization were made in conformity with the provisions of the Emergency Powers

[1] *Ibid.*, p. 248, statement by Mr. Chamberlain, relating to the Seventh War Budget, 1919.

[2] National City Bank of New York, Newsletter, June, 1944, p. 69.

[3] *The New York Times*, July 7, 1944—dateline, London, July 6, p. 7.

[4] CRICK, W. F., *An Outline of War-time Financial Control in the United Kingdom*, p. 15, Macmillan & Company, Ltd., 1941.

(Defence) Acts of 1939 and 1940 and of various regulations, orders in council, and orders by the Treasury.

Heavy maximum penalties, including imprisonment, are laid down for offences under the regulations; a number of cases of non-compliance with them have been brought into Court, and financial penalties imposed, sometimes for mere oversight and not solely for deliberate evasion.[1]

Along with gold and foreign currencies, arrangements were made for mobilizing all readily marketable securities . . . immediate surrender was not called for, the authorities preferring simply to put themselves in a position to call up the securities as they might be required. It was laid down meanwhile that all such securities had to be registered, and restrictions were placed on dealings in them. For most of the time it has been possible, as it now is, for the owners to sell their "restricted" securities, with official permission which is ordinarily freely granted; but the arrangements are different as between sales to another resident and sales to a non-resident, yielding foreign exchange which must be handed over. By these arrangements the authorities ensure that private sales of securities abroad shall make their full contribution to the pool of foreign exchange, while sales at home shall not have the effect of taking foreign securities beyond their control. Nor is it permissible, without specific approval, to do anything by way of pledging such securities or creating some new interest in them.

From time to time, holdings of specified securities are "called up" by the authorities, and the fact of failure to register them, whether by oversight or otherwise, does not in any way excuse the owner from the obligation to surrender them when called for. So far there have been six calling-up operations in respect of securities in foreign currencies. . . . It is laid down in the regulations that the prices paid for securities taken over shall be not less than their market value, as judged by the Treasury, on the date of calling-up, and the practice has been to list the prices in sterling along with the names of the securities, these

[1] *Ibid.*, p. 21.

prices being the sterling equivalent of the dollar quotations on the New York or Montreal Stock Exchange. . . .

Besides securities in specified foreign currencies, there have been three requisitionings of sterling securities. . . . [1]

The first two of these were Canadian government securities; the third involved a Canadian railway issue.

"We ought to observe here that the mobilization of securities should not be taken as implying their immediate realization. . . . "[2] Of the approximately £4,200 million of overseas investments at the outbreak of the war, approximately £1,000 million has been liquidated.[3] The proportion, less that 25 per cent, is only slightly higher than in the First World War. Of the 75 to 80 per cent still not liquidated, a substantial portion is mortgaged.

The interesting point relative to the mobilization of the securities of individuals and companies is that there have been irritation and some grumbling at the inconveniences and the red tape involved; apparently no Britisher has challenged seriously the right of his Government to demand the surrender of his securities, if and when needed. The mobilization of internal resources and wealth has been as complete as that of overseas investments and securities.

In national crises and in international wars the ultimate resource of the British Empire has been the great private fortunes of Britain invested in British industry and abroad. They have been placed at the disposal of the Government in times of crisis.

One reason why the above appears to be true is that industry and foreign investments have developed under the supervision of Government or of individuals closely connected with Government; there has been not only control of investments but also government protection when

[1] *Ibid.*, pp. 23*ff.*

[2] *Ibid.*, p. 26.

[3] National City Bank of New York, Newsletter, June, 1944, p. 69.

necessary. The investment of British funds in rubber plantations and tin mines in the Far East, in African railways, in Argentina, in Persia and the oil of the Near East—all have been placed with an eye to the strategy of materials as well as the strategy of location in relation to the British Empire.

Bank of England and Government. One of the most important of the private investments and one that has been of great importance in the establishment of Great Britain as the international creditor and banking nation of the world, with the resultant far-reaching effects on foreign trade and investments and British political influence throughout the world, is that made 250 years ago in The Old Lady of Threadneedle Street, the Bank of England.

The sealing of the first Charter of the Bank on July 27, 1694, was the culmination of long drawn out negotiations between a group of city company promoters, for whom William Paterson, "a pedlar turned merchant," acted as spokesman, and the Government of the day. William III was waging the War of the Grand Alliance against France, the Exchequer was running low and in 1693 a Committee of the Commons was appointed to report on schemes for raising money. It was before this Committee that William Paterson appeared with his group's proposal to raise £1,000,000 "upon a fund of perpetual interest" at a cost to the State of £65,000 a year in perpetuity, namely 6 per cent on the capital plus £5,000 for "management." This amount would be raised by the creation of a bank whose capital issued to the public would immediately be re-lent to the State. In return the Bank would receive certain privileges, including that of issuing notes, which, it was hoped by the promoters, would be given the attribute of legal tender.

The scheme was accepted, but with modifications. There was to be no legal tender for the notes, the original capital to be raised and re-lent to the Government was £1,200,000, the rate of interest being a generous 8 per cent, plus a yearly fee of £4,000 for

management. The Bank was created by the Ways and Means Act of 1694. The first issue of capital of £1,200,000, 25 per cent paid up, was made in June, 1694, and subscribed within twelve days. The first installment of £112,000 was paid to the Exchequer on August 2, 1694, against the Government's promise to pay in the form of interest-bearing tallies.

. . . By 1709 the Bank had obtained statutory assurance that no Exchequer Bills were ever to be issued without its consent. That assurance was given by the Act "for enlarging the capital stock of the Bank of England and for raising further supply," which raised the capital to £4,402,343, increased the advance to the government to £1,600,000, but left the remuneration at £100,000 a year, i.e., 6 per cent and £4,000 management.

. . . Almost from the start it acted as the principal banker to the Government, the manager of the National Debt and official agent for making foreign remittances and procuring bullion. . . .

Renewals of the Bank's Charter took place at regular intervals. They were usually made the occasion for extracting an additional loan from the Bank to the Government, more often than not free of interest. . . .

. . . by the early decades of the nineteenth century it had evolved a sense of responsibility for the exchange value of the currency and had learnt that this responsibility could not be divorced from its domestic credit policy. In its bullion operations in times of crisis the Bank had begun to dissociate its responsibilities to the wider interests of the nation from the immediate interests of its proprietors: it was ready to import gold at a loss. . . .

It began life as an experimental bank in a small but already rich island. Its object was to finance what its enemies regarded as a Whig War and to make profit for its proprietors. After exactly a century and a half of life it was urged by the greatest of early Victorian finance ministers to compete freely with other banks and presumably to make as much profit as they, if it could. After two centuries and a half it was a non-competitive public institution with world-wide connections and influence, not eager for profit but anxious—in the adapted words of what was once the oath and is now the declaration made by all its directors—

"faithfully and honestly to demean itself according to the best of its skill and understanding and to be indifferent and equal to all manner of persons."[1]

For the first quarter of its millennium the Bank of England has been back of the British government in internal crises and in international wars. The identification of individual and of national interests has been complete and continuous since the chartering of the Bank in 1694. In this identification the Bank is typical rather than unique.

Outlook. In discussing postwar prospects as to the relations between business and the Government, many British leaders expect that war controls of the Government will be continued for an indefinite period.

But even beyond the immediate postwar years, British businessmen see the need of a new and closer relationship between business and government. All four associations declare strongly and unequivocally in favor of private enterprise and private initiative and emphasize the danger of too much "bureaucratic influence." A system of private enterprise, in their opinion, provides "a greater motive power to secure progress and prosperity in industry and commerce than any other form of industrial direction." But they feel that the traditional forms of private enterprise are no longer effective, that "we are on the threshold of a new world and the theories and practices of the past cannot be taken for granted in the future."

The proposals for industrial reorganization differ in detail but all feature what is referred to as economic or industrial "planning."[2]

This planning signifies a large element of government participation and control.

[1] *The Economist*, July 29, 1944, Bank of England Section, pp. 147–149, commentary on the publication of Sir John Clapham's *The Bank of England*, a history in two volumes, Cambridge University Press.

[2] LORWIN, *op. cit.*, p. 105.

Lloyd George predicted an accelerating role for the state in the British economy, with less and less emphasis on private initiative and enterprise. . . .

Oliver Lyttelton, a Conservative, the strong-man Minister of Production in the cabinet, called recently for a return to a powerfully armed and closely knit empire after the war. He urged that, when the last shot is fired, England organize its internal life with the government "in control of business, industry and social security for the benefit of all." The recent speeches of General Smuts and Lord Halifax indicate the same trend in British thinking, in the economic as well as the political sphere.[1]

Entirely in keeping with the expressed views of these leaders of British industry and of British statesmen is the adoption of a completely controlled economy as envisaged by the White Paper, which reflects merely a progression in British thought toward a greater degree of government control and the placing of the authority of Government behind the decisions of British economists whose thinking will be controlled in the future as it has been in the past in the interest of that which is best for the British Empire.

[1] *The Saturday Evening Post*, June 10, 1944, p. 18.

CHAPTER VI

SUMMARY OF THE BRITISH POSITION

From this study of the history of the British Empire as related to foreign trade and shipping, it is clear that throughout the last 5 centuries British policies, both domestic and foreign, have been built around the conception that foreign trade is essential to the maintenance of the British Empire and that shipping is the instrumentality through which foreign trade is developed and maintained.

Throughout this period foreign trade and shipping have received government or public aid or subsidies in a variety of forms both direct and indirect: direct in the sense of government financial aid or loans, and indirect in the sense of supporting government policies and coordinated business and industrial policies.

The following is a brief enumeration of the various forms of British subsidies and aids insofar as they are of a defined character:

Construction subsidy.

Ship-operating subsidy.

Mail contracts.

Admiralty payments or subventions to vessels having qualifications that make them suitable for use as naval auxiliaries.

Government loans to shipping companies.

Government loans to shipbuilders.

Monopoly to British shipbuilders for building of British-flag ships.

Government loans for reconversion and modernization of vessels.

Government protection of foreign traders against loss.

Foreign loans made by British government on condition that credit be used for purchase of British goods.

Gifts of vessels by the Crown to trade venturers.

Investments by the Crown in trading ventures.

Government grant of lands to trading companies.

Routing of goods to Great Britain for reexport.

Discriminating duties in favor of goods shipped in British bottoms.

Imperial preferences granting reduced tariffs for goods shipped in British bottoms.

Deductions of overland freight on British railroads from dutiable value of articles imported into the Empire.

Establishment of rates through shipping conferences and extension of deferred rebates favorable to British shipping.

Use of the Navy to promote, extend, and protect foreign commercial interests.

Use of British economic and political position in world affairs to promote, extend, and protect foreign commercial interests.

The success and dominance of Britain in world trade rest not only upon these aids, which can be defined, but also upon the general conditions that are inherent in the whole British governmental and business structure and in the British mind and public thought.

To the British the merchant marine is as important as the British Navy. The British Navy exists to protect their merchant marine, to protect their trade throughout the world, and to maintain their sea channels.

England has gone to war to promote and extend her position in the field of foreign trade. Some of her wars have been trade wars.

The political, financial, military, and naval strength of the British Empire is behind the maintenance and extension of its foreign trade.

The existence and the prosperity of the British Empire depend upon foreign trade. British government policies are derived from considerations of foreign trade.

The national economy is built around foreign trade. Domestic economy is subordinate to international economy.

Political thought and philosophy are subordinate and contributory to commercial thought and philosophy growing out of foreign trade.

There are complete unity and harmony between political and commercial policies. Commercial policies control. Political idealism is absent.

The British are foreign-trade-minded and maritime-minded.

The leaders of British thought are international-minded.

Political thought and political leadership unanimously support any proposal in support of British foreign trade. There is no opposition.

This comes about through continuity of Empire policy through 5 centuries or more.

No political career in England could be based on a policy in opposition or indifferent to the maintenance and extension of British foreign trade.

There is no isolationist policy or thought.

Great Britain is essentially an industrial nation importing raw materials and foodstuffs and exporting manufactured products.

Agriculture is a minor factor in her domestic economy and completely subordinate to considerations of industry and commerce. There is no political conflict between the industrialists and agriculturists. The importation of foodstuffs is an established and recognized institution that creates those foreign credits and trade balances necessary to the support of England's export trade in industrial products.

Complete sympathy and unity of thought between political and commercial leaders is a fundamental of the British governmental setup and springs from centuries of acceptance of fundamental commercial policies built around British foreign trade.

An important factor in the maintenance of sympathy and unity among political, commercial, and industrial leadership is the fact that London is both the political and commercial capital of the British Empire.

Political, commercial, industrial, and financial leaders are in constant daily contact.

They have intimate acquaintance. They fraternize politically and socially. They are all motivated by the same thought, namely, the commercial welfare of the British Empire.

Commercial leaders go into government; political leaders go into commerce.

The British respect wealth, power, position, influence, and prestige. Not one of these qualities is a bar to political power. Accumulated wealth, public and private, is the foundation stone of the British Empire.

The great private fortunes of Britain with their investments in British industry and their investments abroad have been the ultimate resource and recourse of the British Empire in national crises and international wars.

Britain's position as an international creditor nation has been built and maintained through the use of private wealth in undertakings that are contributory to national welfare and to the extension and maintenance of British foreign trade and political influence.

The British have given political protection to their private investments abroad.

Considerations of foreign policy are dominant.

British thought today contemplates an increase of 50 per cent in the foreign trade above prewar level.

When such a thought is voiced by British commercial, industrial, and financial leaders, it at once becomes the policy of the Government and a unified nation is behind it.

The British have no antitrust laws. Trust busting is not a political pastime or the open door to a political career.

Large corporations, interlocking directorates, trade associations, international cartels, federations of industry, and boards of trade, all for the purpose of controlling prices, trade practices, and markets and on a scale to influence and control national policies, are encouraged and respected. The bigger and more powerful they become the better.

Britain has developed a group of industrial, commercial, and financial leaders in the field of international commerce that is unequaled in the world.

British political and diplomatic representation abroad is devoted to the cause of British international trade, and anything that promotes British trade becomes at once a part of British foreign policy.

British policy in the past as related to foreign trade and shipping has been to encourage private industry and initiative and to extend such government aid and protection as was necessary to the furtherance of British commercial interests throughout the world.

Until the last few months British political and business leaders have been vehemently advocating the prompt withdrawal of governmental controls immediately upon the end of the war and a complete restoration of the system of private enterprise with a minimum of government regulation.

Rather suddenly there was a complete change of front in this matter, with apparently universal acceptance by British economists, statesmen, and business leaders, of the necessity of continuing government controls certainly through the reconversion period and possibly as a permanent feature of British economy. Britain apparently proposes to approach the problems of the postwar period with a planned economy under government controls. This may be regarded as a completely revolutionary or merely as a natural evolutionary change from British past procedures. It may be nothing more than the substitution of

the force and authority of Government for the influence and power of organized private industry operating under government blessing and support.

This is apparently Britain's solution of the problems that confront her as a result of the loss of her position as a creditor nation and because of the necessity of competing with totalitarian nations and with the highly organized and prosperous industries of the United States, which find themselves in so favorable an international credit position.

The importance and significance of England's proposal to adopt a planned economy are so great as to suggest a continuing study and analysis of her postwar position and plans as the implementation of her policies progresses.

CHAPTER VII

POSTWAR OUTLOOK AND PLANNING FOR BRITISH FOREIGN TRADE AND SHIPPING

The past 5 years have been one of the very critical periods in the national life of Great Britain and of the Empire. They reveal with startling clarity the enduring strength of the British Empire.

On the eve of the Second World War England was generally considered to be a waning power in the world; even some Englishmen candidly admitted that they believed the system was bankrupt and could not survive another war.

Other Englishmen may have shared these doubts of the power of England for survival, but their character and their determination were voiced by Winston Churchill in his now famous statement, "I have not become the King's First Minister in order to preside over the liquidation of the British Empire."[1]

Among Dominion statesmen the same tenacity and singleness of purpose have been evidenced most strongly in J. C. Smuts. Early in his career in South African politics and government General Smuts resolved his doubts concerning the position of his country within the British Empire; he has devoted his life to the promotion of unity within South Africa and within the British Empire. His firm conviction is that within the framework of the Empire the best interests of his country can be protected and advanced.

[1] Speech delivered Nov. 10, 1942. Prime Minister Attlee shows the same determination as his predecessor. The continuity of British foreign policy is unaffected by a change of the party in power.

In 1944 Great Britain and the British Empire again are coming to the fore, with the possibility of emerging in as powerful a political position as England occupied at the close of the Napoleonic Wars.

The ties of the Dominions with the mother country are strong; plans being developed to equip India to capture certain Far Eastern markets formerly supplied by Japan will require British help and will consolidate India's position in the Empire. Understandings being reached with the northwestern European countries—Norway, Denmark, Holland, Belgium, France—will increase and strengthen the political and economic dependence of those countries on Great Britain. The empires of Holland, Belgium, and France constitute a vast territory of unlimited strategic, economic, and commercial importance; all these will be a part of this community with England as its core.

The greatness of England, her Empire, her world trade, her maritime supremacy, her financial, industrial, and political power—all these have been achieved through an unyielding, consistent foreign policy and an unswerving devotion to the national interests. To preserve these things through two world wars has required all of the indomitable courage of a great people. As Prime Minister Churchill said in his address to the House of Commons, "War is a hard school, but the British, once compelled to go there, are attentive pupils."[1]

Indeed war has been a hard school for the British. They have had to travel further along the road from creditor nation to debtor nation. They found their industries out of date and ill equipped to meet the production load demanded by a supreme war effort. The years of heavy taxation during which they have been living on depreciation reserves have left them in a state of exhaustion.

It required a supreme effort along completely nation-

[1] *The New York Times*, Aug. 3, 1944—London dateline, August 2.

alized lines with a completely controlled national economy to revitalize their industries and to restore their productive virility to meet the demands of war.

In this amazing transition industries have come more and more under government control and virtual government ownership. Private interests have to a large extent been absorbed or have disappeared. It is questionable whether adequate private capital exists or is available with which to carry the renaissance into the peacetime period that will follow the war. It is further questionable whether venture money will be disposed to assume the risk of postwar operation without some form of guarantee or protection from the Government.

It is possible that private capital in England unrestrained might take flight from home industries to foreign investments. The Government must make home investments attractive to private capital, or the Government itself must furnish the capital for the rehabilitation and operation of home industries.

Germany and Russia have given a demonstration of what can be accomplished by a nation industrially when all its industries are consolidated and coordinated in one great national effort under a unified control in which the national interest is dominant. They have done this under a totalitarian form of government with a completely planned and controlled economy.

The United States has given a demonstration of the capacity of her industries to change from a depressed state of peacetime underproduction to a production level for war purposes far above any peace level ever reached or conceived to be possible. This has been accomplished under a democratic form of government and a national economy that still rests firmly upon the foundation of private enterprise and without the loss of entity upon the part of private industry.

In order that she may continue the revitalization of her industries in the postwar period and in order that she may balance her budget, badly out of balance by reason of the loss of foreign investments and revenues for services, England finds herself in need of increasing her foreign commerce by 50 per cent. To accomplish this in the face of the competition that she will have after the war, it is necessary for her to prepare to make every domestic sacrifice in order to ensure that the output of her industries will compare favorably with that of other industrial nations and will find a sale in the face of the world's competition. In truly British fashion she has faced this issue squarely and is prepared to meet it by the most radical change in her economic structure.

The British Minister of Production has said, "It is impossible to carry the debtor position with the mentality of a creditor. . . . We have to have a new mentality and put our national resources to work and make out of the skill of our own workers those things which we cannot pay for by exports."

America should include in her thinking the converse of this, namely, that it is impossible to carry the creditor position with the mentality of a debtor. We have to have a new mentality that contemplates our buying from foreign countries those things necessary to the sale of our exports.

The limits to which Britain is prepared to go are clearly indicated in Employment Policy, Cmd. 6527, generally referred to as the British White Paper, recently presented to Parliament and overwhelmingly approved by both the House of Commons and the House of Lords.

What is the White Paper? To answer this question we shall quote liberally from various British and American publications and from the public statements and arguments of British statesmen developed in public discussion and debate.

The White Paper is

. . . the outline of a scientifically planned economy for Great Britain. And this is not for the purpose of safe passage from war to peace. In the transition period many emergency measures may be necessary. These will be what they have to be and what circumstances dictate. The scientifically planned economy will begin after that, as a permanent national policy.

The first premise is that the government assumes responsibility for the "maintenance of a high and stable level of employment after the war."

This means that the government will undertake to keep the national economy in a state of equilibrium at a predetermined level. In that economy there shall be neither booms nor slumps. Prices shall be stable. Wages shall be stable, too, though inclining always upward according to an index of production. Nothing shall be left to the cruelties of natural corrective. The theory of natural correctives is fuel for the fire in which unemployment is burning up. The White Paper says:

"The Government is prepared to accept in the future the responsibility for averting a slump. It was formerly believed that depression would automatically correct itself through a decline in prices and wages. The lower prices would increase demand and thereby restore employment. However, experience has shown that this automatic corrective, if effective at all, is likely to be prolonged and accompanied by widespread distress. . . . "

At the center of everything there will be a body of experts, which may be described as an Economic General Staff. It will have itself no power to act. Only the government can act. But the Economic General Staff will be all-seeing and all-knowing, and will possess, besides, the gift of foresight. It must be able to see a slump, or a boom either, before it happens and know beforehand what to do to snuff it out. . . .

Briefly, in this scientifically planned economy the Economic General Staff will represent the principle of pure intelligence, without power. By its advice the government will act upon production, prices, wages, and profit. It will influence, direct, and

if necessary control the movements of private capital, the rate of interest, the situs of industry, the distribution of labor and population, and at last it will control the amount of money the people may spend in the satisfaction of their daily wants.

The Minister of Production said: "In an earlier part of the debate doubt was cast upon whether a democracy could pursue a continuous policy directed toward full employment. It was asked whether the White Paper was in fact an election manifesto; was the House of Commons going to be bound to a continuous policy? . . . I would say that unless you are able in a democracy to devise on some of these major things a continuous policy you are subscribing to a doctrine of despair." He referred to foreign policy and defense as two great subjects already governed by continuous purpose, irrespective of the government of the day, and went on: "I suggest that what the White Paper is asking us to do is to add a third great subject . . . that is, the promotion of full employment. I see nothing undemocratic in that. I do say that as the world goes on, as circumstances change, we must adapt, enlarge, and make mobile the means by which the policy is carried out, but unless we are all determined that this is the policy of the nation, and not the policy of this party or that, we shall certainly fail."

The Minister of Labor said:

"The Government do not claim that the White Paper is the final solution of this problem. The proposals do not raise the question, for instance, of whether industry will, for ever, be privately or publicly owned. Some say that all benefits of enterprise arise from private industry, and some say they arise from public ownership. Well, I have seen a bit of both. I have seen enterprise absent from public ownership and I have seen enterprise completely absent from private ownership. Therefore, the question of how you can give effect to decisions as to who will own industry is not prejudiced by this White Paper. The proposals of the White Paper will operate, whatever the ownership of industry may be."

The Chancellor of the Exchequer said:

"The White Paper does not seek to take sides in the controversy between private enterprise and public ownership or public

management. It seeks to cater for both. In my opinion, for what it is worth, sensible people must recognize, as previous speakers on the opposite side of the House have recognized, the existence of a very wide field in which free enterprise will undoubtedly continue to operate. Surely it is therefore common sense to provide conditions under which free enterprise can operate and have a healthy development for the general benefit of the community; and on the other hand we must reckon with the growing opinion against allowing certain services, certain activities, which are vital to the life of the community, to be carried on for private gain."

. . . All experience shows that unless the public service is conducted with a view to efficiency, and other considerations are discarded, you very quickly get into very serious trouble.

The last word was said by the Minister of Production:

"I would like to touch for a moment on private or free enterprise and the public ownership aspect of this subject, and I would say what my own opinion is and to repeat it quite categorically. It is that the solution of this problem lies in finding the correct mean between the organizing power of the state and the free play of enterprise. . . . "

The government had no inclination to gloss the fact that its purpose was to direct and control the economic life of the nation by expansions of power beyond any British experience in time of peace, a power hitherto known only in time of war. Indeed, the disciplines would be those that had been learned with war.

It was a strange debate. Generally it moved on a plane of high and anxious sincerity. The mood was that of men about to embark on a voyage of great necessity, for a destination unknown. The dispute was not about going, but about gear and cargo, what to take and what to leave behind. They kept exhorting one another to make up their minds without looking back. No one was elated. Some were hopeful, some were depressed, several gave their assent as an act of faith.

There were forty-three speeches. Only two were valiant and uncompromising in defense of private enterprise as against a planned economy. The White Paper was supported by Conservatives, Liberals, Tory Reformers, Moderate Socialists, the Labor

Party as a whole, and by British industry in general. Sir Arnold Gridley, himself an industrialist for more than forty years, said: "I have taken the trouble to fortify my own views by contacting leaders of industry in many parts of the country and I find that the views I have expressed are very widely shared. I think it can be said without contradiction that although of course questions may be asked on this or that part of the White Paper proposals, in general, industry is prepared to give them wide support."

. . . They must realize that it is necessary to have an expanding economy. An expanding economy means expanding finance, it means expanding credit, and I think, more than possibly it means expanding the public debt. That is not a necessary evil, provided it is watched and carefully guarded against abuse.

The debate continued for three days. When at last it came to the question, a Socialist member said that as only three votes were going to be cast against the White Paper, his own and two others, all on the ground that the funeral of private enterprise had been postponed, a division would be a waste of time. So the question was agreed to without a division. and the Government's White Paper was sustained.

In the House of Lords several weeks later there was a like result. The debate there occupied less than two days. The principal speech for the White Paper was by Lord McGowan, head of Imperial Chemical Industries, who believes in cartels and represents all the longing of British industry for a world of amiable and rationalized competition.

Now what had happened? The drawing of a planned economy for Great Britain had been accepted. In this country, no doubt, the event will be treated as one of ideological meaning, as if the British had made a free choice between two systems. If that were true the doctrine of planned economy might be said to have acquired new prestige in the world—Great Britain of all nations to embrace it in place of the great liberal doctrine of free markets, free trade, free prices, and free enterprise. But it is not true. The choice was not entirely free; and wherein it was not free it signifies the length to which Great Britain will go to defend her place in the world. To defend it she is willing to impose upon

herself disciplines not unlike the disciplines of war, and if the freedom of the individual must be sacrificed, that cannot be helped.

A member said "Free citizens grant such power to the government only when they believe the existence of the nation is at stake."

Another member commented . . .

"Through all that I have to say there runs this very urgent plea—that it is time that we got away from general economic thesis to a realistic study of the British economic structure and of what is going to be the British problem. . . . It is the problem of satisfying the demands which our people will make at home, and of keeping our place in export markets. That means higher standards for all workers in production, and a greater allocation of manpower than ever before to nonproductive purposes, which we all accept, such as defense and education, as well as more generous allowances to the old and infirm. And all this greater productive effort will have to be achieved in circumstances of difficulty never paralleled in our history. It is common knowledge now that imports are vital to us, and that, to support the volume of imports we had before the war, we need to increase our exports in volume by 50%—even if we can retain the same favorable 'terms of trade' as before the war."

Running through the debate like a refrain was the statement of one economic imperative. Great Britain must increase her exports one-half. Why? Because she has no longer an *invisible* balance of trade in the form of income from investments overseas. Those investments are largely lost. Therefore, in order to buy from the world only as much as before of the things vitally needed to sustain her economy, such as food and raw materials, she must export much more as the *visible* equivalent, currently. If at the same time she is going to raise the standard of living in Great Britain she must export still more in order to buy still more from abroad, for her people will be consuming more than ever before.

The Minister of Production said:

"The subject of debtor and creditor nations lies at the root of all these problems. By a creditor nation I mean either a

nation which has collected a large indebtedness for past services, or one that has on the other hand a current favorable balance of payments. We in the whole of our industrial life have always been a creditor nation, but we shall end this war as the largest debtor nation in the world. It is impossible to carry the debtor position with the mentality of a creditor. . . . We have to have a new mentality and put our national resources to work and make out of the skill of our own workers those things which we cannot pay for by exports."

But how may Great Britain's exports be increased one-half over what they were before the war?

In facing this problem, one member said:

"We have to recognize the fact that many of our old markets are probably permanently lost; those for instance in the dominions and India. . . . Australia is becoming a manufacturing country. The same observation applies to India, which is becoming more and more industrialized. . . . To offset losses of this kind we must make the most strenuous endeavors to increase our exports to other countries. Above all, we must hang on like grim death to the markets which are within our control, by which I mean British enterprises established abroad.

" . . . Therefore, I hold strongly that the Government should do all in its power to help those enterprises."

Another member said:

"I should like to know what steps the Government are taking now to insure that we do get a proper proportion of the export trade of the world. . . . Unless something is done now our American allies will be in a position to capture a large proportion of the export trade of the world."

The dilemma now evolves. Faced with the necessity greatly to increase her exports and do it at once against enormous odds, the conclusion is that with one mighty exertion British industries must be recreated to equal the most modern in the world, British resources must be intensely developed, and British labor at the same time must be trained in skills and habits for the greater efficiency that is going to be required by the new industry that is going to be created. The feeling is that this heroic task cannot be left to private enterprise. It is an emergency, somewhat the

same as the emergency of war. Therefore, people must be willing to accept a planned economy and to submit themselves to a kind of discipline hitherto unknown to them in time of peace, all because the fate of the nation is at hazard.

But now the question: Can a planned economy be made to work, even theoretically, except in a state of isolation? Can it work in a country that is unable to insulate itself against the free markets, free prices, and free enterprise of the outside world? Obviously, a country to whose economy exports and imports are vital cannot insulate itself.

One member said: "Other great communities which have developed themselves economically and have sought for a policy of full employment have taken the line of insulation, and in some cases complete insulation, from the outside world. Russia perhaps is the most extreme example. . . . The United States group also held themselves together by strong insistence upon a barrier to insulate them from the full impact of the developed industrial system of Europe, which at the time the United States was starting its industrial career could have swamped out its growing industries. They insulated themselves, however, and produced this enormous industrial system which now is the wonder of the world."

Nevertheless, the Minister of Labor, speaking for the government thought it could be done by national agreement. "We must have foreign trade," he said, "because the raw materials are outside our country. We must buy them and other countries must buy goods from us, if we are to have the raw materials, and we must do so under conditions which will insure that our internal economy is not brought near disaster by every storm that blows. Unless there is a method of insulation there is always the danger of the whole economic structure being upset. Therefore, in an association with other countries we must try to agree on measures which will prevent the appalling fluctuations in the national price level which characterized the years between the wars.

" . . . I am hopeful that the negotiations now being carried out throughout the United Nations will lead to that end. We have wholeheartedly committed ourselves to this in the Atlantic Charter."

The same hopeful thought is more carefully stated in the White Paper itself in a paragraph reading:

"A country will not suffer from mass unemployment so long as the total demand for its goods and services is maintained at a high level. But in this country we are obliged to consider external no less than internal demand. The Government are therefore seeking to create, through collaboration between the nations, conditions of international trade which will make it possible for all countries to pursue policies of full employment to their mutual advantage."

Her solution is for "all countries to pursue policies of full employment," like the British policy—that is to say, a world-wide planned economy, the White Paper universal.

But would it be a solution really, or a solution for long with the trade of the world divided by rigid agreements, with governments themselves acting as the principal trading bodies, and with prosperity apportioned among the nations by writing on paper? Would Great Britain herself consent to be so bound forever, if her star should be rising again?[1]

E. Mackenzie Hay, Chairman of the British Federation of Commodity and Allied Trade Associations, Ltd., who attended the International Business Conference at Rye, made this statement regarding England's position:

Sees Gradual Decontrol:

"Though our long-term objective is to regain private enterprise at the earliest possible moment, we recognize as practical people that the exceptional change in our immediate fortunes and position which will result from the war must inevitably in certain directions still call for some measure of Government intervention."

Need of Imports:

"I am extremely anxious that our American friends should understand that in adopting this attitude, business men in my

[1] National Industrial Conference Board, *The Economic Record*, October, 1944, pp. 61*ff.*

country have just as little intention of selling the pass of private enterprise as you have here, and will be as vigilant as I know you will be, in seeing that controls, restrictions, and restraints of all kinds are lifted from industry and markets as quickly as they safely can be."

Stressing Great Britain's dependence on importations of foreign foodstuffs and raw materials in order to boost her export trade by some 50 per cent over prewar levels, Mr. Hay questioned: "Do you wonder that in a situation of that sort the British Government should enter into some long-term agreements for supplies of foodstuffs and raw materials with countries who have faith in us for the long pull?"

Hay frankly admitted that "I think it is very probable that during our transition period we may be forced to do things you may not like—or may not move as fast toward the return of complete free enterprise as you think desirable."

At the same time Hay asserted, however,

> that British merchants, and industrialists realize that controls in general are a wasteful and extravagant form of business administration; that they provide opportunity for inefficiency, and that they do not possess that flexibility and initiative and enterprise which will be essential to a people whose survival depends upon their ability to regain old markets and establish new ones.[1]

From all of this we gain some conception of the desperate plight in which Great Britain finds herself economically and industrially. Her political prestige is likely to be greater than it has ever been. She will have a position of leadership and responsibility in the new European and Mediterranean order.

She will doubtless share with Russia the political control of Europe, but she must be prepared on the other hand to

[1] *The Journal of Commerce*, Nov. 24, 1944, pp. 1 and 2.

compete with Russia in the industrial and economic field if she is permanently to maintain her position of political prestige.

It is apparent that she is prepared to go all the way toward totalitarian economy, but that she is resolved at the same time to do it under the structure of Government by duly elected representatives and that she is not prepared to surrender this to a totalitarian political government.

It is possible that, if the Government and the state had not at this time shown a willingness to accept radical economic innovations and readjustments, there might have been a political revolution that would have brought about a change in the character of the Government of England.

The White Paper in its present form is merely a broad declaration of general policy. It is impossible to judge its full effect until the passage of laws necessary to implement it. Doubtless the real debate will come and the true significance of the White Paper will be revealed in the course of the passage of these laws.

The proposal of so sweeping a planned economy might be alarming as suggesting a too rigid governmental control interfering with the development of private enterprise were it not for the fact that the British have already developed a fine degree of cooperation and unity between business and Government.

In England, Government seeks and accepts the advice and counsel of business in its broader sense and business is in a position to influence governmental decisions and practices. We can be assured that in the direction of any planned economy in England, whether dominated by the Government or by industry and business, it will be directed toward the prosperity of British industry and enterprise and the development and expansion of British trade and shipping and, let us hope, to an ultimate return to policies of free enterprise.

The acceptance by Britain of a rigid planned economy at this time may be nothing more than the recognition of the seriousness of the problem that confronts her and a declaration of her willingness to go all the way in the matter of self-discipline and the acceptance in peace of the restraints and controls that have been developed in war, and with the same objective, namely, the revitalization of British industry in order that the same forces that have enabled her to win the war can be directed toward winning the peace, which to England means the recovery and increase of her foreign trade and her restoration to the position of the world's leading maritime nation.

The British decision in favor of a planned economy under government control means merely that the Government is to play a larger role than it has in the past. The British government has always listened to the voice of business, and it is extremely likely that it will continue to do so. Creative thought on the part of business will still be encouraged and the functions of Government will undoubtedly lie in providing the government machinery and authority necessary to make effective the joint decisions and policies of Government and business. It may be assumed, based upon the past history of the British Empire, that when the policies of big business in England require the force of Government, the Government will not be backward in lending its hand.

However startling may be England's acceptance of a planned economy, it cannot be assumed that such a policy is wise in all circumstances and for all nations, even those within the British Empire. The Australians, for example, have rejected the idea of a planned economy.

The Government of the Commonwealth of Australia, supported by the premiers of all six of the Australian states, went to the people with a referendum on this question:

Shall the Constitution be amended to give the government

fourteen additional peacetime powers for a test period of five years after the war?

The electorate voted no. But it was close. The negative was carried by only a little more than seven votes in a hundred.

For purposes of war, extraordinary powers were conferred upon the government by the National Security Act. But these wartime powers were designed to shrink or altogether lapse with the return of peace; and what the government wanted was additional constitutional power to be exercised during a period of reconversion, estimated at five years. The fourteen additional constitutional powers proposed to be conferred upon the government would have enabled it to control wages, prices, production, distribution, employment, foreign exchange, money, the flow of capital overseas, air transport, social security, and the compensation of veterans and their dependents.

The Australian law requires that when a referendum is held the principal arguments for and against the question shall be set forth in one official statement, in a fair and balanced manner. In this case the official statement, summarized, was as follows:

For

"Industry and manpower, swung over to war production under wider wartime powers, cannot be restored to a peacetime footing without similar and equally wide powers in peacetime;

"Peacetime powers are insufficient to consolidate social security advances (like child endowment and widows' pensions) introduced under wartime powers;

"Benefits enjoyed by primary producers from organized marketing during wartime can be safeguarded and increased only by national control of production and distribution of goods;

"Without powers to control the reconversion of industry the use of raw materials, prices and profiteering, raising of money and employment, the Commonwealth will not be able to provide full employment nor to discharge its duty to returned servicemen and servicewomen.

Against

"The Commonwealth Government already has sufficient powers to carry postwar plans into effect;

"A referendum should not be held in wartime when the people's mind is so engaged with matters of war;

"Extra constitutional powers over employment would enable the Commonwealth Government to introduce industrial conscription;

"The people should not be asked to accept or reject the fourteen powers in a block. They should be free to vote for the powers individually."

Briefly therefore, though by a very narrow margin, the people of Australia rejected the idea of a peacetime adventure with planned economy.[1]

The significance to America of the adoption of a planned economy by England lies in our recognition of the fact that in the postwar world we must meet the competition of totalitarian economies where governments will engage in trade or will encourage the development of industrial units of such scope as will make them in effect national units and significant competitors in the field of world trade. If we seek to retain our democratic economic institutions as well as our democratic political institutions, we must meet this challenge with the further development of private initiative and resourcefulness through which already we have demonstrated that we can reach levels of production undreamed of in any other country in the world.

The maintenance of competition through the encouragement of small business is part of our domestic political philosophy, but we must consider carefully whether in the realm of world trade we are not under the necessity of removing some of the protective restraints that govern our domestic economy and in our foreign economy give freedom to industry to consolidate its strength and combine its efforts in the interest of competing with those totalitarian forces with which we will be confronted. Whatever

[1] National Industrial Conference Board, *The Economic Record*, October, 1944, p. 68.

may be our decision in these matters, we are assured that the British attitude of all-out support of her foreign trade and shipping will be perpetuated and strongly implemented by the adoption of the planned economy contemplated in the White Paper.

In the international discussions now taking place between Britain and America relative to the postwar economy a difference of point of view has arisen and exists relative to the value and acceptability of trade associations and cartels that exercise control over markets and prices. A study of English history relating to these matters would indicate that Britain has no intention of abandoning such associations and cartels; the White Paper merely consolidates their power and influence and gives them the status of government undertakings.

If the American point of view is pressed and the full force of British opposition is developed, it might well result in a serious breach in the friendly relations now existing. It would appear that Britain will very neatly avoid this issue by bringing her planned economy under governmental control, thus relieving private industry of the stigma of monopolistic philosophy. Objections upon the part of the United States to trade practices of Great Britain must take a very different form if such objections are directed against the Government rather than against private industry. The presentation of these objections will thus be restrained by considerations of diplomatic intercourse. In this field we shall be well advised not to ignore the diplomatic skill of our British cousins.

CHAPTER VIII

HISTORY OF THE AMERICAN MERCHANT MARINE

Colonial Period. Settlement in the New World offered to the hardy men and women who established their homes along the coast of the North Atlantic a chance to continue their way of life, freed from the restraints and prohibitions of the Old World, subject to the physical limitations of life in an unexplored region, spurred on by their initiative and their ingenuity. The way of life of the English, the Swedish, the Dutch, who were the first to settle in America, was that of seafaring people. In the New World, backed by forests and mountains, they faced the wide Atlantic Ocean.

Rich land, easily cultivated, and a favorable climate turned Virginians to the soil and to the development of plantations, but their early mode of travel from one plantation to another or to more distant points was on the rivers, the inlets, and the bays that bordered their farms. Soon their produce was shipped to England in vessels that were to bring back to them the materials and goods they required for their life on the land; some of the vessels were built in the shipyards established in Virginia in 1620.

Long before the permanent settlement at Jamestown in 1607, to the north, fishermen from England, France, Spain, and Portugal had come in large numbers every year to the banks and had built their "fish flakes," or frames for drying fish, on the shores of the bays and inlets from Newfoundland to Massachusetts.

One group of fishermen, anxious to make a permanent settlement on one of the finest of these natural harbors,

chose a site on the Kennebec River, in what is now Maine. During the first winter, however, the storehouse of the tiny settlement burned, the loneliness of the forests overcame the settlers, and in 1607 the survivors of the Popham settlement launched the "Virginia," the first vessel built on the western shores of the North Atlantic for carrying passengers to England; the vessel made the voyage safely with its pioneers and a cargo of dried fish and furs.

The Pilgrims, having lived for several years among the Dutch, whose "way is on the sea" and who excelled as traders throughout the world, had lost none of their regard for the sea as their means of livelihood. On the voyage that brought them to the tip of Cape Cod in 1620 and then across the bay to Plymouth, the man in charge of the sailing of the "Mayflower" was Captain Thomas Jones, who had fished in the waters off Greenland; "Mate Robert Coppin was carried as the pilot of the ship because he had been on the parts of the coast to which the expedition was bound." Rather than continue their voyage to the Hudson River, originally their destination, they decided to remain on Cape Cod, their reasons being that the location "'afforded a good harbor for boats.' It was 'a place of profitable fishing.'"[1]

The Puritans who followed eight years after the Pilgrims to Salem in 1628, and ten years after to Boston in 1630, came with deliberate purpose, choosing Salem and Boston as sites for settlement because they offered excellent harbors. Thus, it is clear, harbors were the first concern of the settlers. This was because they were all of sea-faring stock who came in the full knowledge that, while they were establishing themselves ashore, it was only from and by the sea that they could manage to exist. The sea was their link with home,—and a never failing source of food.

[1] SPEARS, JOHN R., *The Story of the American Merchant Marine*, p. 9, The Macmillan Company, 1910.

From the very first, almost as soon as the rude houses were reared, the settlers kept their ships busy catching cod and freighting it to England, with cargoes of furs, traded from the Indians, and deck loads of spars and masts, hewed from the forests, as extra money makers. Back and forth the ships plied, each voyage westward bringing more settlers and cargoes of cloth, tools, and other manufactured staples; and each voyage eastward taking back the fish and fur and lumber with which to pay for the manufactured goods and with which to build up capital.

Naturally, the Puritans of Boston and Salem, no less than the Pilgrims of Plymouth, appreciated the fact that much of their profits went to the ship owners. If the Colonists could own their own ships, they could profit more largely. Lacking the funds to purchase ships at home, these stalwart individualists set to work to build ships in their own door-yards. Significantly, each ship coming to New England carried iron nails and metal ship-fittings—the only two maritime necessities the colony could not produce—and attractive cash bonuses or grants of large areas of land were offered as inducement to bring over colonists who were experienced shipwrights. Thus, very soon, New England began to build her own ships, to create her own merchant marine.[1]

The livelihood of many of the settlers of the colonies, especially of New York and New England, was to depend on shipbuilding, shipping, and trading, as these became of increasing importance in the seacoast villages and towns. Governor John Winthrop, of Massachusetts Bay Colony, said, "The general fear of want of foreign commodities, now our money was gone and that things were like to go well in England, set us on work to provide shipping of our own."[2]

Until sailing vessels and wooden ships were displaced

[1] CLARK, WILLIAM H., *Ships and Sailors*, pp. 14–15, L. C. Page and Company, 1938.

[2] MARVIN, WINTHROP L., *The American Merchant Marine*, p. 2, Charles Scribner's Sons, 1902.

by iron and steel vessels, steam propelled, New England workmen continued to build, launch, and sail the finest ships afloat, not only for themselves but eventually for British and other shippers of the maritime nations.

Materials ideal for shipbuilding were abundant in the forests of the New England and the Middle Atlantic colonies. Charnock, the great English historian of marine architecture, says,

> . . . in respect to numbers, the marine of America began to acquire consequence rapidly; the different materials necessary to the purposes of its creation were all of them produced in the country itself, and in greater abundance, perhaps, than in any other on the face of the globe. . . . [1]

To ensure the quality of the vessels built by the increasingly skillful, able, and resourceful craftsmen, the Ancient Laws and Charter of Massachusetts Bay provided that nothing should be "' defective or amiss in any materials or workmanship'"; heavy penalties were established for failure to build vessels that met the standards.[2] In this doubtless lies one of the reasons for the ready market for the ships that were launched on the inlets, the rivers, and the bays of Massachusetts.

A report of the Lords Commissioners for Trade and Plantations, made to the King in 1721, speaks of Massachusetts Bay as follows:

> The branch of Trade which is of the greatest importance to them, & which they are best enabled to carry on, is the building of Ships, Sloops, &c. And according to our advices from thence, they have annually launched from 140 to 160 vessels of all sorts, which at 40 tons one with another, amount to 6000 Tons; & altho' the greatest part are built for account of, or sold to the

[1] CHARNOCK, JOHN, Esq. F.S.A., *An History of Marine Architecture*, Vol. III, p. 203, Nichols and Son, London, 1802.

[2] MARVIN, *op. cit.*, p. 3.

Merchants of this Kingdom, & in the plantations, nevertheless there belongs to this Province about 190 sail, which may contain 8,000 tons, & are navigated with about 1,100 men, besides 150 boats, with 600 men, employed in the fisheries on their own Coast.[1]

It is interesting to note what produce was shipped in some of the "190 sail" and to what ports they went. Record of the foreign commerce of Salem for the year 1700 gives the following:

"Dry Merchantable codfish for the Markets of Spain and Portugal and the Straits. Refuse fish, lumber, horses and provisions for the West Indies. Returns made directly hence to England are sugar, molasses, cotton, wool and logwood for which we depend on the West Indies. Our own produce, a considerable quantity of whale and fish oil, whalebone, furs, deer, elk and bear skins are annually sent to England. We have much Shipping here and freights are low."[2]

Other records show that for the years 1715–1718 New York port annually sent "112 vessels to the West Indies, 71 along the coast, 21 to Great Britain, and 11 to other parts of Europe, but the vessels averaged only 35 tons each. Boston, in those same years, was sending nearly twice as many vessels and they averaged 50 tons each. . . . "[3]

Since more than five times as many vessels cleared for the West Indies as for Great Britain, it is interesting to inquire into the reasons for this. Distance alone could not be responsible, for the longer mileage of the North Atlantic was comparatively safe from pirates and buccaneers, who made every trip into the waters of the West Indies a

[1] Bogart and Thompson, *Readings in the Economic History of the United States*, p. 44, Longmans, Green and Company, 1916.

[2] Paine, Ralph D., *The Ships and Sailors of Old Salem*, pp. 24–25, The Outing Publishing Co., 1909.

[3] Albion, Robert Greenhalgh, *The Rise of New York Port*, p. 5, Charles Scribner's Sons, 1939.

venture in which the colonial seamen must outwit, outsail, or outfight these lusty pirates and buccaneers.

Governor Winthrop revealed the reasons for the trade with the West Indies when writing to a friend in England in 1641:

"All foreign commodities grow scarce . . . and our own of no price. Corn will buy nothing and a cow which last year cost 20 pounds might now be bought for 5 pounds. . . . These straights set our people on work to provide fish, clapboards, plank, etc. . . . *and to look out in the West Indies for a trade.* . . . "

This West Indies trade actually began in 1636 when Thomas Mayhew of Boston and Governor Winthrop's son, John, sent a little sloop to Bermuda. Loaded with corn and smoked pork, she traded her cargo for oranges, lemons, and potatoes and came home to earn a net profit of 20 pounds, a profit for a month's voyage equal at least to $1000 today. Soon voyages were extended to Havana and other West Indies ports. . . . [1]

In the present days of freight and passenger vessels whose cost runs into millions of dollars, of shipping companies with their corporate structure and heavy investments, of exporting and importing companies, of freight forwarders, of agents and commission merchants, the financing and management of this early trading are worth noting. How were these pioneers, with almost no capital or facilities for trade, able to establish and maintain a trade that later became one of the most important bases of economic survival to many of the colonists?

It must not be supposed that in these early days there was anything in the least formal about the business. To begin with, ships were usually village or at least communal ventures. Few men in New England had the capital necessary to build and found a sea-going ship—and those who had that much money seldom cared to put so much in any one ship, for in those days

[1] CLARK, *op. cit.*, pp. 18*ff.*

at least one ship in ten was damaged each voyage and probably one in 50 was lost annually. So the custom grew up of building a ship in shares. A few wealthy men would find the money for the purchase of the wood and metal and rope. Other men, skilled workmen but moneyless, would put in their time in building the ship. For their capital and for their labor, these men would take out shares in the vessel which entitled them to a proportionate share of profits.

Then perhaps another share, for that voyage alone, would be given to a merchant who wished to invest by furnishing the ships' rations. Finally, when all was ready, the projected voyage would be advertised and farmers, merchants, and the rest of the town would bring produce to the wharf and give it to the captain to take and trade for them, the ship's owners to receive a stated share of the profits, if any, or else a fixed space fee for the transport.

Crews, with money scarce, were not paid very large wages. Men before the mast received about two pounds a month, mates about three pounds, and captains seldom more than five. But, each man, in proportion to his rating, was given space in the ship in which he could either carry goods of his own or goods for someone else which he contracted to trade for a share of the profits.

This really was an excellent arrangement for it not only saved the ship owners from paying large wages but it gave the sailors, every man jack, a personal interest in the voyage. The ship carried his property as well as his person and he had his fortune at stake in every storm or peril. Thus, although the wages were low, sea-men made very good incomes, and it was such an excellent opportunity for a boy that the forecastle was often filled with youths who went to sea much the same as modern youths would go to college.[1]

The seamen-traders of the New England colonies early became adept at buying and selling on a basis that increased their goods and money; often one of the ships sent out from these colonial ports would make from three to five or six

[1] CLARK, *op. cit.*, pp. 20–21.

ports on each trip, selling the cargo which had been loaded for the first stop, purchasing another cargo for the second port of call, and continuing the selling, buying, and shipping until the vessel returned to its home port with goods and profits from the trading that were far more than the original cost of the vessel and the expenses of the trip. The use of the term *Yankee trader* as synonymous with driving a close bargain has a long history back of it; the early seamen-traders soon became famous for their skill in bargaining as well as for their seamanship.

There are records of voyages where nearly every man jack on board ultimately commanded his own vessel. . . .

If the American seamen dared more than the European, it was because he had the greater incentive. It required no miracle of circumstance or favor of the great to make him successively a shipmaster, shipowner and successful merchant. Those were normal phases of existence and while, as a foremast hand he jumped to the word of command, he was respected by captain and officers as a man who would shortly stand on his own quarter deck.[1]

Many family names are famous in the history of colonial and early American shipping.

The Crowninshield family of Salem earned very unusual distinction on salt water and a national fame as men of affairs and statecraft. There were six brothers of them, born of a seafaring father and grandfather, and this stalwart half dozen Crowninshields one and all, went to sea as boys. One died of fever at Guadaloupe at the age of fourteen while captain's clerk of a Salem ship. The five surviving brothers commanded ships before they were old enough to vote, and at one time the five were absent from Salem, each in his own vessel, and three of them in the East India trade.[2]

[1] CUTLER, CARL C., *Greyhounds of the Sea*, pp. 26–27, courtesy of G. P. Putnam's Sons, 1930.

[2] PAINE, *op. cit.*, p. 232.

With such men and from a small beginning the colonial merchant marine and shipbuilding developed. The rapidity and the persistence of the growth of both the industry of shipbuilding and the numbers of colonial vessels on the seas began to alarm the shippers and leaders of Great Britain. Under mercantilism, which dominated their policies and epitomized the desired economic relations between the colonies and England, colonies were for the purpose of providing raw materials to the mother country and of absorbing manufactured products, the goods to be exchanged in the vessels of the mother country. The 1721 report by the Lords Commissioners, after presenting figures on the shipbuilding and shipping of New England, has this to say:

Maryland

The number of ships belonging to this province, are only four small Brigantines & not more than 20 Sloops for the Sea; the inhabitants not being inclined to navigation, but depending upon British bottoms for the exportation & importation of the bulk of their trade; & there has been employed of late years above 100 sail of ships from Great Britain.

South Carolina

The trade of this Province, with respect to their own shipping is not hitherto very considerable; the inhabitants not having above 20 sail of their own, amounting to about 1500 ton; & as they chiefly apply themselves to the plantation work, they have not many sea faring men, but their trade is carried on by the Merchants of Great Britain, who reap a considerable advantage thereby.

The Consequence of the Plantation Trade

There still remains to be considered another great advantage that arises to this Kingdom from the plantation trade, which is, the constant employment it gives to our British Shipping. . . .

It is very probable, that the trade which is carried on between England and the American plantations employs at least one fourth part of the Shipping annually cleared from this kingdom.

And upon casting up the tonnage of the plantation products re-exported in the year 1717, it appears there was employed near half as much Shipping, in transporting these goods from hence to Germany, Holland, & other foreign countries, as was employed in the trade directly from the British Colonies in America.

Consequently therefore it may be concluded, that about one third part of the Shipping employed in the foreign trade of this Kingdom is maintained by the plantation trade.

But notwithstanding the advantages, at present arising from the Plantation trade, are so very considerable, it is not to be doubted, but that they might still be rendered much more useful, if sufficient encouragement were given to induce them to turn their industry to the production of Naval Stores, of all kinds, & of such other commodities as our necessities require, & which are purchased by us with great disadvantage from foreign Countries; from whence this convenience, amongst many others, would naturally result,—That the more Northern Colonies would be thereby enabled to pay their balance to England, without lying under the necessity of carrying on a trade to foreign parts, in some respects detrimental to their mother Kingdom.[1]

The provisions of the Navigation Acts are given in an earlier chapter,[2] but their effect on the development of commerce and shipping in the colonies is of special concern because it was an attempt to determine the direction and the extent of that commerce and shipping.

By the provisions of the Navigation Act of 1651 foreign ships were excluded from trading with the colonies of England. This act, however, left the colonists free to trade with any country of the world, and they proceeded to sell their goods and buy manufactured wares and other goods

[1] BOGART and THOMPSON, *op. cit.*, pp. 46–50.

[2] See Chap. I.

in the countries and ports that offered the most advantageous trade.

The Act of 1660, in addition to restating the principle of exclusion of foreign ships in colonial trading, went much further and enumerated certain colonial products that could be sent only to the United Kingdom; any of these goods sold to other countries must be reexported from the United Kingdom; they could not be sent direct from the colonies to the European markets.

The commodities thus singled out for the mother country's monopolization were those generally regarded as essential to the wealth and power of the state which were not produced in the British Isles themselves: sugar, tobacco, cotton, indigo, and dye woods—the oil, rubber, and steel of modern imperialism. No country could hope to attain self-sufficiency without an ample supply of these semitropical products: and by enumerating them England hoped to relieve herself of dependence upon France and Holland and, ultimately, to oblige those powers to buy from her.

Although many important products of the American colonies were not enumerated—fish, hides, and flour, for example, were never monopolized by Great Britain—and might, therefore, be carried directly to European markets, this latitude permitted colonial trade was steadily narrowed during the eighteenth century. Great Britain adopted the practice of enumerating whatever commodities strengthened her trading position in world markets, benefited British manufacturers and merchants, or added revenue to the customs. This policy led to the enumeration of rice, molasses, naval stores, and furs prior to 1764. In that year, George Grenville, the British Chancellor of the Exchequer, in his efforts to raise a colonial revenue and strengthen the mercantile system added more colonial commodities to the list than had been enumerated during the entire period since the passage of the Navigation Act of 1660.[1]

[1] MILLER, JOHN C., *Origins of the American Revolution*, p. 6, Little, Brown & Company and the, Atlantic Monthly Press, 1943.

Complementary to this enumeration of colonial goods that could be shipped to the United Kingdom only, the Navigation Acts prohibited the importation of foreign goods direct to the colonies, even in vessels owned and manned by colonists. All such goods must go to the colonies through England as reexports.

With such an arrangement it is obvious that the English controlled the prices which the colonists received for the produce they had for sale and set the prices which they would have to pay for the goods they imported, whether that goods was of English make and manufacture or came from some European country or from a remote part of the world. In addition to the control thus established over prices, the British collected duties, handling charges, insurances, storage fees—all the many levies and charges that necessarily accrue on any goods that are carried into a port, unloaded, stored, or immediately reloaded and reexported. Both the colonists and the European consumers of colonial products paid tribute to British traders, shippers, and related businesses under this system.

The reactions of the American colonists to this increasingly restrictive Mercantilism varied according to their occupations, their circumstances, and their characters.

From Maryland south, the colonists raised a cash crop for export, or they produced from the resources that the countryside provided the stores England especially needed —tar, pitch, naval stores. These men were not seafarers and fishermen. They depended mainly on British ships to carry their produce to its markets. And they suffered under the low prices granted for their exports and the high charges made for the shipping services and the goods they imported.

The Middle Atlantic colonists early began to acquire an economic independence greater than that of any other section. On the rich lands farmers raised the food to supply their own needs and to feed the towns. The presence of

minerals in this area, coupled with the immigration of thrifty, resourceful, skilled workmen and farmers, resulted in far less economic dependence on England than that of the southern colonists. The Lords Commissioners report on Pennsylvania:

> They likewise build many Brigantines & Sloops for sale; but having few or no manufactures of their own, they are supplied therewith from Great Britain, to the yearly value of about 20,000£. And as this province does greatly abound in iron, so we have good grounds to believe, that, if proper encouragement was given in Great Britain, to take off that, & their timber, the people would thereby be diverted from the thoughts of setting up any manufactures of their own, & consequently the consumption of those of Great Britain considerably advanced. . . . [1]

The colonists of this section stood midway between those of the southern settlements, with their dependence on England for factory products and the goods they used in their daily living and for the carriage of their exports to markets abroad, and those of the New England colonies, with their almost complete and exclusive dependence on shipping and trade, on foreign commerce. The people of Pennsylvania, New Jersey, and New York developed a more balanced economy of farming, trading, fishing, shipbuilding, and shipping. The importance of their foreign trade was great, but they had other means of earning a livelihood and maintaining their economic independence.

To New Englanders, however, enforcement of the Navigation Acts[2] of the eighteenth century would have brought almost complete ruin. Their livelihood depended on their shipping and trade, a shipping and trade that must profit them—not the mother country—if they were to survive.

[1] BOGART and THOMPSON, *op. cit.*, p. 46.

[2] The term here used includes all the acts relative to the regulation of the commerce of the colonies, such as the Molasses Act of 1733, the Enumerations, etc.

It is plain, then, why circumvention of the Navigation Acts, the buying off of customs officers and enforcement personnel, smuggling, and eventual defiance and revolt arose most strongly in these colonies; their way of earning a living, a way suited to their interests, likes, skills, and abilities, was to be denied them for the benefit of English shippers and traders 3,000 miles away, and they were to become mere dispensers of English goods brought to their ports in English ships. Shipping and trading were too firmly established and too profitable to the merchants, the sea captains, and the common sailors for them to accept the death sentence that the Navigation Acts and the Enumeration of 1764 would have meant.

Smuggling and defiance were not confined, however, to the northern colonies. Boston and Rhode Island frequently are thought of as being the centers in which smuggling flourished, but the activities in these areas were greatly reduced by the concentrated attempts of the British after 1764 to enforce the collection of customs and the observance of the Navigation Acts.

New York became a haven for smugglers, with the Dutch, reluctant to relinquish their early trading to their British rivals, taking a leading part in the activities. The customs officials in New York port owned not a single vessel or ship of any kind; they were land based in an occupation that for effectiveness demanded constant cruising on the waters of the harbor and rivers and inspection of all vessels that came up the bay. Philadelphia was second only to New York as a center for smuggling and evasion of the hated laws and regulations.

The British government acted by appointing, in the 1760's,

> . . . the American Board of Commissioners of the Customs. . . . The commissioners were given authority to appoint searchers, tide waiters, collectors, surveyors, clerks, land waiters, and

comptrollers to assist them in executing their duties. Acting in close co-operation with the Courts of Admiralty, these officials, together with the informers who followed in their train, added greatly to the hazards of smuggling. . . . To crown the chagrin of the merchants, the commissioners insisted upon dismissing the old customhouse employees—many of whom the merchants had safely purchased—and putting in their places "petty Scotch Laddys" who seemed to be able to live on their salaries alone.[1]

Another method was followed by the British in their attempts to enforce their hated restrictions on trade and commerce of colonists:

Yankee ships were evading the law, and English pirates began the trouble. Masking as privateers,[2] they seized Colonial ships, hauled them into English ports and claimed them as prizes because they were being illegally operated. Indeed, England considered this procedure so helpful to British shipping that the judges were paid special fees by the Crown for every Colonial ship they awarded to the privateers. . . . [3]

This special fee was a "commission of 5 per cent upon the amount of the fine and condemnation."[4]

Given the determination of the British to monopolize the foreign trade and the shipping of the colonies, given the character of the colonists and their determination to resist this tyranny, the War of the Revolution was inevitable; the only course other than revolt open to the colonists was submission to the establishment of a monopoly of colonial trade and shipping by the traders and shippers of Great Britain. To this the colonies would not submit.

[1] MILLER, *op. cit.*, p. 266.

[2] "*Privateer.* A vessel owned and officered by private persons, but carrying on maritime war under letters of marque," and "*Marque.* A license of reprisal upon an enemy, as at sea in war-time." Letters of marque were issued by the King, legalizing the capture of the vessels of trade rivals. Definitions are from Funk & Wagnalls *Standard Dictionary.*

[3] CLARK, *op. cit.*, p. 42.

[4] MILLER, *op. cit.*, p. 85.

Back of the stiff-necked independence of the colonists in matters political and economic—particularly in shipping and trade, where their interests clashed most sharply and clearly with those of the British—was a philosophy of life that made of work almost a religion. Idleness was a sin and a crime. The man who was found most frequently in the stocks on the commons of the New England village or town was the village loafer, and he was the object of ridicule and contempt.

> The basic principles of human conduct in the Puritan civilization were Work and Piety . . . let us suppose . . . that you never got out of bed until ten in the morning, that you never did a stroke of work and scorned industry of all kinds. In that case, though your Piety would have been commendable you would have found yourself in the stocks, side by side with the atheist who made work his religion.[1]

Visitors from England and Europe were struck by the fact that there were no beggars and idlers in the colonial towns and villages. But the shortage of man power, the determination to get ahead in the world, the religion of work, all were factors in this situation. How is this related to shipping and trade?

The shortage of man power made it necessary to sail the ships with as small crews as possible unless the number of ships clearing from the ports was to be largely determined by the number of sailors available rather than by the number of vessels and the profitable trade to be conducted. Many a vessel sailed with a short crew, made the trip successfully, and subsequently carried only the reduced crew. One of the reasons for the development of the multi-sail vessels in the colonies was the fact that the greater number but smaller sails could be handled by a small crew.

[1] WOODWARD, W. E., *The Way Our People Lived*, p. 53, E. P. Dutton & Company, Inc., 1944.

Another advantage of the small crew was related to the policy of each man's receiving a share in the profits of the voyage or his being given a certain number of cubic feet of shipping space for the carriage of produce with which he conducted trade for his own profit. In the first situation the amount collected from the profits of the voyage by each member of the crew was larger as the number in the crew became fewer; in the second case the amount of space granted to each member of the crew was larger and the crewmen's trading was more profitable if the space was divided among a few men.

. . . the manner of life of the people . . . made American crews the most efficient in the world. Captain John Gallop, in a sloop of twenty tons, manned by two men and two boys, was, in 1636, not only able to take care of his vessel in a gale of wind but to retake another sloop that had been captured by the Indians. Many vessels traded to the West Indies with but five men and a boy on board. Raleigh had mourned because Dutch ships, in his day, needed no more than half as many sailors as English ships, but in 1676 the New England ships needed less than the Dutch or any other ships. It was when contemplating a New England ship manned by a New England crew that Sir Josiah Child discovered the "American Peril." He saw that a colonial ship manned by a colonial crew *was more efficient* than the same ship manned by any other crew. . . . [1]

Insofar as figures are available on the wages or the earnings of seamen during this period, they show a higher level in the colonies. According to Charnock, the wages of a man in the Royal Navy at the time of James I were 14s, about three-fourths of a pound, *per mensem*, or for each lunar month. Although the wages of the Royal Navy were below the level of the British fishing vessels and mercantile marine of the same time, the British carriers did not pay as much as the £2 a month that was paid to seamen as

[1] SPEARS, *op. cit.*, pp. 46–47.

recorded in the logs of early colonial vessels. British shipbuilders and political leaders of colonial times complained that their skilled workmen were emigrating to the colonies for the higher wages and the great opportunities there for the exercise of initiative and for going into business for themselves. Among British shippers and trading companies, notably the East India Company, the practice was followed of allowing officers of the vessel to have cargo space to enable them to trade on their own account. No mention is made of this privilege's being extended to seamen, however; so the trading opportunities on colonial vessels were another attraction to ambitious seamen.

All these factors contributed to placing colonial ships in a highly favorable competitive position in the carrying trade of the period.

The Revolution. The role of the seamen and ships of the colonies in the successful conclusion of the Revolution was of major importance. While Washington was performing miracles with an army of tradesmen and of farmers who dropped their fighting to go home to their shops or to their farms for planting and harvesting, colonial privateers were interrupting the communications and the flow of reinforcements and supplies between the mother country and her forces in the rebel colonies and were supplying soldiers of the colonies with captured arms, munitions, clothing, and stores. These American privateers were sailing into the Straits of Dover, into the Irish Sea, into the home waters of the British, disrupting their trade, driving their vessels into their home ports, and keeping them there, capturing a substantial number of those who ventured out onto the ocean. To the vessels of Massachusetts alone 626 letters of marque were granted by the Continental Congress; the General Court of the state issued some thousand more.

Writing of the results of the granting of letters of marque, Morison says,

Her success in this legalized piracy was probably the greatest contribution of sea-board Massachusetts to the common cause. . . .

From an economic and social viewpoint, privateering employed the fishermen, and all those who depended on shipping; taught daring seamanship, and strengthened our maritime aptitude and tradition. Privateers required speed . . . Commerce continued with the West Indies, France, and Spain in letter-of-marque ships, armed merchantmen with a license to take prizes on the side. . . . [1]

The Continental Congress established a Navy, but the

. . . thirty Continental cruisers of 1776 had shrunk in 1781 to nine, carrying one hundred and sixty-four guns. But in the same year the American privateers, converted out of merchantmen, and managed by individual shipowners, numbered four hundred and forty-nine, mounting in all 6,735 guns. The American privateers of 1775–83 captured or destroyed three times as many of the enemy's ships as did our frigates and sloops-of-war. . . . From July, 1775, to December, 1777, American shipowners had received commissions for one hundred and seventy-four of their idle ships as privateers. These vessels mounted 1,836 cannon and their crews comprised from nine to ten thousand sailors. New Hampshire, with only twenty miles of seacoast and one port, Portsmouth, had sent out eight privateers before the end of 1777; rich and patriotic Massachusetts, fifty-three; Rhode Island, six; Connecticut, twenty-two; New York, though her great port was held by the British, seven; Pennsylvania, thirteen; Maryland, twenty-one; South Carolina, six, and North Carolina, three. For this hazardous but profitable work the best ships in the American merchant fleet were chosen. Already . . . our shipwrights had begun to produce a class of vessels of superior speed, and our seamen were famous for their hardihood . . .

Some of these early privateers were extraordinarily successful. Several of them took as many as twenty British prizes in a single

[1] Morison, Samuel Eliot, *The Maritime History of Massachusetts*, p. 29, Houghton Mifflin Company, 7th impression, April, 1930.

voyage, and one is said to have taken twenty-eight prizes . . . . While the war enriched some American shipowners, it impoverished others. Not all privateers came home with wealth and glory. A large number never came at all. . . . [1]

Had the stringent maritime laws of Great Britain succeeded in their purpose, that of preventing the development of and/or destroying the colonial merchant fleet, the outcome of the Revolution might have been entirely different; it was only by means of the merchant vessels commissioned by the marine committee of the Continental Congress as fighters that the French were kept informed of the progress of the war and of the temper of the Americans in their determination to win independence. But the losses of the Americans to British Royal Navy vessels and privateers had been heavy, and the task confronting the Americans in 1783 was virtually that of rebuilding their merchant marine and of reviving their industries dependent on it, their fishing fleets, and their foreign trade—a formidable task for a group of states that were faced with all the other problems, domestic and foreign, that confronted the Americans after Yorktown. But they were independent, and their future lay in their own hands.

Trade Warfare, 1783–1830. What were the conditions of trade at the time when the colonies emerged as independent states, and what were some of the difficulties they faced in rebuilding the trade they had carried on prior to the Revolutionary War?

The colonial mariner

. . . was as definitely debarred from the rich trade of India and the Orient as though he had been a resident of Mars. The doors of Africa, and of South America, were closed. Subject to orders in council, embargoes, rights of seizure, prohibitions and restrictions in never ending succession, he might visit scattering

[1] MARVIN, *op. cit.*, pp. 12*ff.*

ports in the West Indies and on the continent of Europe and borders of the Mediterranean with a carefully restricted invoice of merchandise . . . Legally, and otherwise, by one government or another, the colonist was excluded from nearly every source of lucrative maritime trade. . . . [1]

By the winning of independence the traders of America had not thereby freed themselves of these restrictions; trade of this time was undeclared war in which only the most fit and the most fleet survived. In fitness and speed the Americans were supreme.

The aims of rival European maritime nations were not to win out in trade through superior ships and methods, through development, through service to buyers and sellers; the aims were to destroy the trade of rivals, to establish a national monopoly in trade, in shipping, and in reexport business as well as in the related fields of finance, insurance, etc. To this end, as pointed out in the history of the British mercantile marine, the British had waged war, declared or undeclared, against Portugal, Spain, Holland, and France throughout the seventeenth and eighteenth centuries; her final triumph over these European trade rivals came at Waterloo.

Until the Revolutionary War the colonists had been eminently successful in the shipbuilding and the trade routes that were allowed to British colonies under the Navigation Acts; they had been successful in some routes in defiance of these same acts.

After 1776, of course, American vessels were excluded by the British Navigation Acts from the West Indies and other profitable commercial trade routes. In seeking new routes the traders turned to the Far East, and in February, 1784, the "Empress of China," with Captain Green, set sail, returning in May, 1785. This route was to become one

[1] CUTLER, *op. cit.*, pp. 5*ff*.

of the mainstays of American foreign trade, in spite of the difficulties faced by American traders.

An American ship, large or small, was then an Ishmael of the ocean. It had a flag, but nothing else. There was no government to protect it, there were no consuls to guard its interests in the alien ports which it entered, no line-of-battleships or frigates to shield the peaceful merchantman with their rows of shotted guns. The English, French, or Dutch traders in the East were sheltered by a recognized nationality and an active naval force, but the American mariners had nothing to depend on but their own cool courage, their breadth of canvas, and the swiftness of their keels. . . But safe in an eastern port the Yankee mariner found his trials not ended but simply altered. Every ingenious resource of tonnage and customs taxation that merciless jealousy could contrive was brought to bear against him, and his ship was confiscated and he and his owners ruined on the slightest pretext of irregularity.[1]

On August 6, 1785, Adams wrote from London to Secretary Jay:

"Britain has ventured to begin commercial hostilities. I call them hostilities, because their direct object is not so much the increase of their own wealth, ships, or sailors, as the diminution of ours. A jealousy of our naval power is the true motive, the real passion which actuates them; they consider the United States as their rival, and the most dangerous rival they have in the world. I see clearly they are less afraid of an augmentation of French ships and sailors than American.[2]

Given the commercial hostilities and the restrictions and prohibitions of the period, the only recourse of the new nation was to adopt defensive measures and restrictions that would guarantee American vessels certain of the protections British vessels enjoyed under their Navigation Acts.

[1] MARVIN, *op. cit.*, pp. 35*ff*.

[2] CULBERTSON, WILLIAM SMITH, *International Economic Policies*, p. 432, D. Appleton-Century Company, Inc., 1931.

The first real act of the First Congress of the United States, July 4, 1789, was a protective tariff for the encouragement and protection of manufactures and shipping patterned on the English Navigation Acts, in part. This act allowed a discount of 10 per cent of the tariff duties on imports brought in ships built and owned by American citizens. Further, on tea brought direct from the East in American ships, there was a duty of from 6 cents to 20 cents per pound—if brought in foreign ships, a duty of from 15 cents to 45 cents per pound; if the tea was brought in American vessels from the warehouses of the East India Company rather than direct from the East, the duty was from 8 cents to 26 cents per pound. By this measure the trade of American ships with the Far East was fostered.

The third act of the First Congress, July 20, 1789, provided that American-built ships owned by American citizens should enter our ports with a tonnage duty of 6 cents as against 30 cents for American-built ships owned by foreigners and 50 cents per ton for ships built and owned by foreigners. Further, American vessels in the coasting trade paid the tonnage duty only once a year, and foreign vessels paid it at every entry. In 1794 this act was amended to add 10 per cent to tariff rates when goods were imported in foreign vessels. "Between 1789 and 1828 Congress passed no fewer than fifty tariff or other laws intended directly or indirectly to protect American shipbuilding and shipowning."[1]

While these laws were being passed by the United States Congress, the war of Great Britain against France was extended to the ships of neutral nations that were carrying goods to France; France, in turn, extended her war against England to include any ships of neutrals that might attempt to carry goods to England. Since American vessels had entered this neutral trade in large numbers, they suffered

[1] MARVIN, *op. cit.*, p. 42.

severe losses by reason of the seizures of all neutral vessels by France and England.

Although there was never a declaration of war, the state of war that existed by reason of the French attacks on the shipping of the United States was terminated after 2½ years by a treaty signed on Feb. 3, 1801.

During this period, when the British were in great need of more seamen for their Royal Navy and mercantile marine, the impressment of American seamen caused widespread resentment; repeated attempts were made by the American government to force discontinuance of this practice but with no results.

. . . the growing strength of Napoleon so strained the resources of the British navy that its captains became desperate for men, and took them by force in increasing numbers from American ships. The bitter wrangle over impressment grew out of a difference in the laws of the two countries. England contended that a man who once had been an Englishman was always an Englishman. But the United States was largely peopled by men who had once been Englishmen.

The long series of wars had drained England of seamen. Each English captain was responsible for the recruiting of his own men. With Napoleon preparing to invade England itself, and succeeding everywhere on the continent of Europe, it was perhaps too much to expect of a patriotic British captain that he be entirely scrupulous.

Some honest mistakes were made, and more dishonest ones. Many British captains did not bother even to make excuses. They took the men they needed and gave necessity as the reason. So it appears, at least, from the reports of American merchant skippers to their owners and to the Navy Department. . . . [1]

The first years of the nineteenth century saw, also, the depredations of the Barbary Pirates on American com-

[1] LAING, ALEXANDER, *Clipper Ship Men*, pp. 101–102. Duell, Sloan & Pearce, Inc., 1st ed., 1944.

merce in the Mediterranean. That the British were pleased with these attacks on American vessels and had even given encouragement to the Barbary Pirates was frankly admitted by a parliamentary leader of that time.[1] In 1805 the Americans forced the cessation of these attacks and were free of them for a short time. "Not until the War of 1812 offered British agents another chance to employ their peculiar methods with the Barbary Powers, was American commerce again seriously harassed in the Mediterranean."[2]

The efforts of Jefferson to avoid war with the British by the use of the embargo and of nonintercourse, the impressment of American seamen, and the part played by the Navy and the fighting merchant marine of the United States in the War of 1812 are too familiar to need repeating here. An undue emphasis on certain factors, however, sometimes obscures the fact that the basic right for which the Americans were fighting in this war was the right to trade freely in the ports of the world; it was a war against the monopoly of world trade that the British were attempting.

The peace that came in 1815 did not see an immediate cessation of the depredations on American shipping, nor did it see a withdrawal of discriminations and restrictions of world trade and shipping. Even within the territory of the United States there were difficulties:

> . . . though France had ceded to her by treaty in 1803, for the sum of fifteen million dollars, the State of Louisiana, that country for many years afterwards continued to levy heavy differential duties on all goods imported into France in American bottoms, while American shipowners had to contend at their port of export against the predominant interests of a country whose settlers for a long time greatly outnumbered the native Americans resident in New Orleans. Indeed, so late as 1820, a long memorial was presented to Congress from twenty-four captains of American

[1] Lord Sheffield, speaking in Parliament in 1784.
[2] MARVIN, *op. cit.*, p. 98.

vessels then lying at New Orleans, stating that they "cannot earn a competent livlihood, owing to the fatal discriminating duties established in France in favour of its own vessels in the exclusive importation there of the staples of the United States." The memorialists further alleged that on some articles the duty was "ten times" in favour of French vessels, and that the "aggregate importation in French vessels at the port of New Orleans exceeded very much in *quantity* the amount imported by American vessels"; being in the proportion of "nearly four to one." In confirmation of these statements the memorialists furnished a return from the Customs which demonstrated that the carrying trade between New Orleans and France was being then rapidly transferred from American to French vessels; and they stated that the only reason why the French did not absorb the whole trade, was that they had not a sufficient number of vessels to undertake it. The petitioners further insisted that nothing but "a positive tonnage duty," graduated according to the amount of the differential duties levied in France on the chief American staples, would avail to keep their trade in their own hands.[1]

From the port of New Orleans the produce of almost the entire Mississippi River valley, the developing West of the United States, was exported after being brought there in river barges and steamers. So, also, New Orleans was an important import city for the West.

American statesmen and leaders, realizing the importance of the trade and shipping of the new nation, appreciated that some constructive, positive action was necessary other than the erection of barriers, the setting up of restrictions, and trade practices based upon a spirit of retaliation or a resort to war. While they realized the necessity for these measures as a protection to their active, growing merchant marine, they aimed always toward the goal of the removal of restrictions, the elimination of monopoly, greater freedom of trade and commerce, fair competition, and rewards for

[1] LINDSAY, *op. cit.*, Vol. III, pp. 3–4.

hard work, initiative, and ability. The degree of freedom won in the Revolutionary War was to be expanded continuously, at home and abroad; basically, it was an economic freedom.

Even before the passage of laws discriminating in favor of American vessels, leaders of the United States set about negotiating for the reciprocal removal of barriers to trade, commerce, and shipping.

In 1782 a treaty concluded by the United States with the Netherlands provided

> . . . that subjects of the contracting states should pay in the ports each of the other "no other nor greater duties or imposts, of whatever nature . . . than these which the nations the most favoured are or shall be obliged to pay"; and that they should "enjoy all the rights, . . . (etc.) in trade, navigation, and commerce which the said nations do or shall enjoy."[1]

In 1794, the Jay Treaty with Great Britain gave the two nations most-favored status in relation to direct commerce between the two countries.

Negotiations with the British in 1806 resulted in a convention removing the discriminations that had existed in tonnage and imposts; since the British refused to include their North American and West Indies colonies, the United States refused to accept the convention.

On Mar. 3, 1815, Congress approved an act

> . . . making our discriminating tonnage and customs duties inapplicable to the direct trade with any country removing all discriminations against American shipping. This evidence of a willingness on the part of the United States to enter into reciprocal relations with Great Britain led to the commercial convention of July 3, 1815 . . .

The American plenipotentiaries again endeavored to obtain national treatment for American vessels in the British possessions

[1] CULBERTSON, *op. cit.*, p. 64.

in the West Indies and on the continent of North America, but Great Britain refused their request for trade in British possessions on an equal footing with British vessels.[1]

In spite of resentment at this refusal of the British, Congress took the necessary steps to enforce the convention of 1815.

In 1822 the United States negotiated a treaty with France, by which discriminating duties were to be reciprocally abandoned within a period of six years, and discriminating tonnage dues to be limited in amount. By a series of treaties, with Denmark in 1826, with Norway, Austria-Hungary and the Hanseatic cities in 1827, with Prussia in 1828, and with Greece in 1837 discriminating duties were abolished not only in the direct trade but in the indirect trade. The policy of these treaties was embodied in the Marine Reciprocity Act of 1828 which made a general offer to all nations of the reciprocal abolition of discriminating duties. In that decade, when American shipping was decreasing, the fortunes of American trade and shipping must have been of unusual concern to American statesmen. They did not, however, denounce the treaty of 1815 with Great Britain or attempt to extend the policy of discriminating duties. On the contrary they did all that they could to abolish the system of discriminating duties both at home and abroad. They clearly traced the decline in our shipping to general economic causes.[2]

The consistent, persistent attempts of the statesmen of the United States, coupled with the retaliations all nations were practicing against each other and the obvious losses occasioned by such action, had established strong support within the United States for the policy of reciprocity. The incessant concern of the early leaders had been with the shipping and the foreign trade of the United States; Washington, Adams, Jefferson, Jay, Franklin—all the many fine statesmen who had a determining part in the

[1] *Ibid.*, pp. 436–437.
[2] *Ibid.*, pp. 437–438.

early history of the United States were convinced that foreign commerce was the core of our economic well-being and that freedom was essential to it.

Rufus King, speaking in the Senate on Apr. 3, 1818, emphasized another phase of the importance of the merchant marine to the United States:

> An efficient navy never has existed, and cannot exist, without a commercial marine, and the maritime history of Europe, which abounds with instruction on this subject, demonstrates this political truth, that the naval power of every nation is in proportion to its ships and seamen. Money can build ships, but the navigation of the great ocean only can make seamen . . . [1]

While statesmen were establishing the principle of reciprocal trade treaties between the United States and those nations that would accept this greater freedom of commerce, while other statesmen were emphasizing the importance of the merchant marine as a navy auxiliary, merchants of the country were working out solutions to some of the vexing problems that confronted them in the flow of goods in commerce with other nations.

One of these problems was that of the irregularity of arrival of goods and the attendant lack of employment of the many who earned a living from the handling of cargo.

Four New York merchants decided to do something about it. Instead of regarding one another as rivals to be outwitted, they pooled their resources and four of their ships to establish the first commercial packet line. Parts of their original advertisement of October 27, 1817, are significant:

"It is the intention of the owners that one of these vessels shall sail from New-York on the 5th and one from Liverpool on the 1st of every month. . . . "

[1] *The World's Great Classics*, Orations, American Orators, The Colonial Press, rev. ed., 1899, Vol. I, p. 199.

It proved impossible to make the new line's English agents take seriously, at first, the unheard-of-principle that a ship should sail at the advertised hour, whether or not she was loaded, and despite the condition of the weather.

. . . the Black Ball Line had proved itself in the eyes of the public.

Four years later the success of the new principle of regular sailings was attested beyond a doubt by the competition of another line, the Red Star, with sailings on the 25th of the month, blow high, blow low, full or empty. The Black Ballers replied to that by adding four more ships and increasing their scheduled sailings to two a month. In midsummer of the same year, 1822, the Swallow-tail Line appeared, to prove that the response to the new Yankee idea was so great that there was room for yet another. . . . It was a new idea in the world, and for decades it was done only in America.

Business followed the daring gamble. . . . [1]

By 1830 the packets had cut deep into British shipping on the North Atlantic and were carrying an increasing share of the cargo of this busy route.

Passengers, too, preferred a line that had a regular sailing date and a regular schedule; the time lost in travel was cut greatly; so more and more of the passenger traffic went to the American packets. This is readily understood when one considers some of the delays that occurred with ships that had no scheduled sailing time; one such vessel left New York port and then lay at anchor for 6 weeks off Sandy Hook, New Jersey, waiting for some reports that the colonial governor wished to send and which he had been slow in preparing.

So by 1830 the packets had cut deep into British passenger trade on the North Atlantic; in this field, too, the packets were carrying an increasing share of the trade on this busy route.

[1] LAING, *op. cit.*, pp. 152–154.

During the period from 1783 to 1830 American trade and shipping suffered from the undeclared war of the French on the trade of the Americans, from the Barbary Pirates, from the blockades established by both the British and the French on the continent of Europe and on the British Isles and the resulting seizures of neutral merchant vessels as carriers of contraband, from the embargo and the non-intercourse legislation of the United States Congress, and from the War of 1812 against England. Even more, however, than the state of military war that existed during many years of the period, declared or undeclared, the trade war and discrimination, prohibitions, and monopolies that characterized much of international commerce at that time resulted in fluctuations and actual decreases in the merchant tonnage of the leading maritime countries of the world, in wide fluctuations, and in some actual decreases in the value of international commerce. The figures for the United States are as follows:

Year	Tonnage of American Merchant Marine in foreign trade	Total foreign commerce	Percentage carried in American vessels
1790	346,254		40.5
1795	529,471	$117,746,140	90.0
1800	667,107	162,224,548	89.0
1805	744,224	216,166,021	91.0
1810	981,019	152,157,970	91.5
1814	674,633	19,892,441	54.5
1820	583,657	144,141,669	89.5
1825	665,409	180,927,643	92.3
1830	537,563	134,391,691	89.8

It is worth noting that British tonnage of 1830 (2,531,819) was approximately 150,000 less than that of 1815 (2,681,-276), and the tonnage of American vessels engaged in foreign trade in 1830 was only very slightly higher than that of 1795. The value of our foreign commerce in 1830 was

only slightly higher than in 1795, while the percentage carried in American bottoms had made a slight decrease. The highest percentage of American imports and exports ever carried in American merchant ships was that of 1826—92.5 per cent.[1]

During this period of fluctuating fortunes in commerce, American shippers developed trade wherever it might be found within the restrictions of the time, or in defiance of those restrictions. American sailing vessels were seen in the ports of western Europe, of Russia, of the Mediterranean, of the Near East, Africa, South America, the islands of the Far East, India, and China. At the same time the dikes of monopoly barring the free flow of goods between nations were being undermined effectively; no small part of the credit for this undermining can be claimed by the statesmen and traders of the United States, but not without great cost to American interests.

1830 *to the Civil War.* As the results of the Reciprocity Act of 1828 began to be felt among United States shippers, the costs of this policy weighed upon them.

Under the act discriminating duties, fees, etc., were removed for the vessels of those nations that accepted the principle of reciprocal removal of barriers. Previous reciprocal agreements had removed barriers in the direct trades; this removed barriers in the indirect trades as well, so that American vessels were free to enter the trade between the Far East and England and European ports or between South American or other ports and the ports of the United Kingdom and Europe—the British–West Indies trade still remained a monopoly. British vessels, of course, were free to compete as carriers between American ports and all other ports of the world.

The removal of barriers in the indirect trades was, in effect, of very little value to American shipping but of

[1] Statistics from MARVIN, *op. cit.*, pp. 50*ff.*

great value to British shipping. Already, British commercial, industrial, and shipping interests were so closely integrated and so identified with national interests that real pressure existed to ship British then as now. It was only as American packets and clippers and later steamships demonstrated an undeniable superiority that British merchants and travelers patronized American lines.

Further, the exclusion of American vessels from the indirect trades for so many decades meant that the types of vessels designed by American marine architects and engineers were more and more specialized vessels, designed especially to serve the needs of the direct trade routes in which they had been and could be employed freely. Many of the indirect routes were served almost entirely by tramp vessels, a field into which American shipping has not entered in great volume.

In the actual carrying out of reciprocity the British used many and ingenious devices to circumvent the granting of equal treatment to American vessels, at the same time enjoying for her own vessels reciprocal rights in American ports. An American merchants' firm, determined to test the actual application of reciprocity by the British,

> . . . loaded two brigs, one American, one British provincial, with Maine lumber and sent them out at the same time to the island of Trinidad. One vessel received her cargo in an American port; the other, in New Brunswick, whither the lumber had been rafted. Both cargoes sold for the same price, and "the earnings of each vessel on the principle or reciprocity ought to have been alike"; but "an adjustment of accounts proved that the voyage under the British flag produced $893 more than that conducted under the American."[1]

When the British Navigation Acts were finally repealed in 1849 and in the years following, as the repeal became

[1] MARVIN, *op. cit.*, p. 183.

fully effective, the discriminations against the vessels of other nations on the part of the British were done away with; by this time, however, the principle of a generous and continuing mail-contract subsidy and/or of admiralty subventions to steamship companies had been accepted by the British, and their steamships were firmly established in the important routes of the North Atlantic, the West Indies, and the Far East.

While these factors were at work in international commerce and shipping, new forces were arising within the United States, so that by 1830 the preoccupation with foreign commerce and shipping was beginning to be overshadowed by internal development, the building of the West, the development of river and lake transportation on which so much of the internal development depended, the development of industries, and the exploitation of the land and of the natural resources.

By 1830 the states of the old Northwest Territory and of the Mississippi River valley were becoming a power in Congress and in the national life; Andrew Jackson, the first president from west of the Alleghenies rather than from one of the coastal states, went to Washington in 1829.

King George III had attempted unsuccessfully to stem the tide of westward movement by the Proclamation of 1763; in the decades following the Revolution this progression westward became one of the determining factors in the history of the United States. Frederick Jackson Turner, writing of the influences of the frontier on American history, says:

> . . . the frontier prompted the formation of a composite nationality for the American people . . . .
>
> In another way the advance of the frontier decreased our dependence on England. The coast, particularly of the South, lacked diversified industries, and was dependent on England for the bulk of its supplies. In the South there was even a depen-

dence on the Northern colonies for articles of food. Governor Glenn, of South Carolina, writes in the middle of the eighteenth century: "Our trade with New York and Philadelphia was of this sort, draining us of all the little money and bills we could gather from other places for their bread, flour, beer, hams, bacon, and other things of their produce, all which, except beer, our new townships begin to supply us with, which are settled with very industrious and thriving Germans. This no doubt diminishes the number of shipping and the appearance of our trade, but it is far from being a detriment to us." Before long the frontier created a demand for merchants. As it retreated from the coast it became less and less possible for England to bring her supplies directly to the consumer's wharfs, and carry away staple crops, and staple crops began to give way to diversified agriculture for a time. The effect of this phase of the frontier action upon the northern section is perceived when we realize how the advance of the frontier aroused seaboard cities like Boston, New York, and Baltimore, to engage in rivalry for what Washington called "the extensive and valuable trade of a rising Empire."

The legislation which most developed the powers of the national government, and played the largest part in its activity, was conditioned on the frontier.[1]

What was the fate of shipping and commerce during this time of preoccupation with the frontier and internal development?

From the period following the close of the War of 1812 to about 1840 the tonnage of United States foreign trade vessels grew only very slightly, by about 88,000 tons.

Since the population was increasing, this really represented a relative falling off, from a per capita tonnage of 13.43 tons in 1810 to 4.25 in 1839. The capital of the country was being invested during this period in manufactures, internal improve-

[1] TURNER, FREDERICK JACKSON, *The Frontier in American History*, pp. 22*ff.*, Henry Holt and Company, Inc., 1920.

ments, and the development of our natural resources, all of which offered larger returns than the carriage of ocean freight.[1]

However,

American shipbuilding and shipowning presented in 1840 as sound, efficient, and well organized an example of human industry as the world had ever known. If, as was universally assumed, wood was to remain the shipbuilding material and sails the motive-power, the United States seemed inevitably destined to crowd Great Britain into second place, and to become the absolute mistress of the seas. Says the British historian, Grantham:—

"previous to the development of steamships, the preponderance of shipping was falling rapidly into the hands of American shipowners. Thirty years ago one of the great objects of interest at the docks in Liverpool was the American sailing packet, and it was considered that a stranger had missed one of the lions of the port who had not visited these celebrated ships. The same prestige was felt everywhere: on the Atlantic and Pacific oceans, in India, China, and in all the best trades American ships were most in demand."[2]

During the 1830's the packet lines cut ever more deeply into the carrying trade of other merchant vessels of the world. Behind these famous vessels and the organizing genius and daring that made them the outstanding success they were during this period there were other factors that were of equal importance in the developments of the day. What made the packets possible, other than the willingness of the New York merchants to gamble on the success of the idea? "The New York yards that built the famous packets were years ahead of any others on earth . . . New York's secret was the idea of efficiency, the gospel of speed

[1] MARVIN, *op. cit.*, pp. 221*ff.*

[2] BOGART, ERNEST LUDLOW, *Economic History of the American People*, p. 245, Longmans, Green and Company, 2d ed., 1935.

and co-ordination, during the making as well as in the use of the products. . . . "[1]

Laing, speaking of the position which Donald McKay occupies in the history of American ships, says of McKay and the age in which he lived: "He saw the first derricks erected, operated by steam power, and the first engine-driven saws for cutting timber. Treenails . . . began to come from lathes . . . "[2] Every type of production was being improved and stepped up by the inventive genius of Americans, by the freedom of men to experiment, by the willingness of American business men to back new developments.

While this was the spirit and the key to the rapid progress in the United States, what was the situation in England?

If free competition made American trading habits "liberal," then the British merchants undoubtedly tended in the opposite direction and were more than usually "conservative" because they had operated for centuries mainly on a system of exclusive rights and grants from the Crown or from Parliament, one man or company being given a "patent" which guaranteed that no-one else but the patentee could trade in certain places . . . so long as others could not compete . . . there was no reason for thinking up new ideas to improve ships and methods. . . .

That was the sort of thing which made it difficult for British merchant shipping to improve itself. It was not just the conservatism of thinking that old ideas were better than new ones: it was monopoly, the intricate jumble of special Tory privileges which added to the cost of everything. This could not be got rid of without endangering the leisure class which had a firm grip on Parliament and held it grimly—conservatives in the sense that they wanted the special monopolies to be continued, lest free competition make it necessary to get rid of the unproductive costs which represented their own fat incomes.

[1] LAING, *op. cit.*, pp. 223–224.
[2] *Ibid.*, p. 189.

Most nautical historians dispose of the subject by saying that the British could not compete in the Rail Road Route to Europe of the Yankee packet lines because it cost fifteen or twenty dollars more per ton to build wooden ships in England than in America. It comes to the same thing. . . . But they cost more mainly because they were supplied by monopolies that paid many unnecessary salaries and dividends.[1]

Augustin F. B. Creuze, a great British scientist and student of naval architecture, writing for the seventh edition of the Encyclopaedia Britannica, about 1840 says,

" . . . the mercantile navy of England is the least speedy and most unsafe that belongs to a civilized nation . . . the absence of all improvement in our mercantile navy has placed it in this disadvantageous position . . . the merchant builders of Britain . . . are, with a few honorable exceptions, unequal to the task of competition with the more educated and more practiced foreigner."[2]

During these years in the United States marine architects and engineers were busy developing the type of merchant vessel which would serve best the needs of the trade in which it was to be used. While packets were serving the railroad route to Europe, builders and engineers were constructing on the ways of the shipyards of the United States models of merchant vessels that were to win fame in the cotton trade between New Orleans and New York port. These vessels embodied a new principle in sailing ships—that of the flat bottom, a type of construction that gave a maximum space for cargo. The success of these merchant vessels went far to convince American marine architects that the principle of building a special type of vessel to suit the particular trade was a sound idea.

In the clippers of the 1840's and 1850's the American marine architect of wood-and-sails attained the greatest

[1] *Ibid.*, pp. 167*ff*.
[2] *Ibid.*, pp. 173–174.

perfection ever reached; the result was a vessel of rare beauty and of hitherto unknown speed. This "Greyhound of the Seas" captured the imagination of shippers and builders to the extent that they believed it would remain superior in the ocean trades to the vessels of iron, steam propelled, that were being developed in the United States and in Great Britain.

Laing, writing of American men of the clipper ships, says,

> Today we have bitter reasons for supposing that a temptation to conquer the world by violence may never be extinguished. It seems all the more remarkable that the world conquest of our own great American dream could even have begun peacefully. This difference was not entirely due to the fact that our officials of government had little to do with it. The government of England had had little to do with the private companies of adventurers who had raised private armies and navies for conquest in the Sixteen Hundreds. Something had happened to the commercial community too, in free America. Our citizens, a hundred years ago, developed the first merchant marine competent to sail unarmed and unescorted, everywhere.
>
> . . . Americans might have followed the usual pattern, designing new and more powerful men-of-war in which to go plundering. They built instead the first miraculous clipper ships. Most clippers carried nothing more bulky, in the way of armament, than what the skipper could lock up in a chest in his own cabin.
>
> . . .
>
> At ten o'clock on the morning of March 17th, 1853, the clipper ship *Sovereign of the Seas* was slashing her way among enormous combing waves of the South Pacific, headed for Cape Horn . . . . Captain Lauchlan McKay had a new kind of sailing machine under his heels—a ship that rode the waves more steadily, and remained drier, the faster she drove. He had no worries about her buoyancy.
>
> . . . the ship had been sailing, when the log was cast, at 19 nautical miles an hour.

That was part of the miracle. So far as the people on board her knew, nobody ever had sailed at that rate of speed before. . . . For the first time in the world's history a ship had sailed more than 400 sea miles in 24 hours.

Americans had a right to feel exultant. Their young nation's shipbuilders and designers had boldly junked most of the accumulated ideas of nations that had been building ships for a thousand years. In less than a decade they had proved their new ideas right by producing scores of ships that were better than any ever seen in the world before.[1]

The demand for vessels and the very high freight rates resulting from the California and the Australia gold-rush traffic resulted in profits that shipowners were willing to invest in the new type of clipper ship. Then the superior speed and performance of the clippers on the California and the Far East trade routes created a great demand for the vessels; the entrance of the Americans into the tea trade between China and England was made possible at this time, also, by the repeal of the Navigation Acts, which previously had maintained the British monopoly on this trade.

. . . Nat Palmer's *Oriental*, the first American clipper seen in the port of London, created a tremendous stir. She arrived in the fastest time ever made from China, carrying a full cargo for which she had received almost twice the freight rates that other ships were able to charge. . . .[2]

The belief of American traders that the clippers would maintain their superiority over steamships in the ocean trades is understandable, but the United States early showed leadership in the development of steam-propelled vessels for use on the rivers and lakes of the country.

As early as the 1780's experiments were progressing in the United States, as well as in France, England, and elsewhere, in the use of steam for propelling vessels.

[1] *Ibid.*, pp. 4*ff.*
[2] *Ibid.*, p. 268.

John Fitch, an unfortunate and eccentric inventor, born at Windsor, Connecticut, after years of roaming settled down on the banks of the Delaware River, where in 1785 he conceived a steamboat . . .

The first boat designed by Fitch was 45 feet in length, with paddles working on the sides. His second ship, built in 1788, was 60 feet long and had similar paddles placed at the stern. Another of Fitch's boats, built in 1790, made seven miles an hour and was placed in service between Burlington, Bristol, Bordentown and Trenton, sometimes leaving the route to accommodate excursions out of Wilmington, Gray's Ferry and Chester. . . . this steamboat made between 2,000 and 3,000 miles without serious accident in its first season.[1]

To Fulton, however, is given general credit for the first successful steamboat to ply the inland waters of the United States. He was fortunate in that people of the country were realizing the need for more efficient means of transportation; furthermore, by 1807 there were skilled mechanics who could execute the design of engines and paddle wheels for his steamboats.

In 1810 the first steamboat to ply the waters of the great river systems west of the Alleghenies was built in Pittsburgh; in 1814–1815 the first steamship put in service by the United States Navy was constructed.

Further developments of steam shipping on the Hudson and the waters around New York state were retarded by the monopoly granted by the state to Fulton and Livingston. Similar grants were made by other states with like results. In 1824 a case involving these monopoly rights reached the Supreme Court of the United States. In one of his famous and far-reaching decisions Chief Justice Marshall and a majority of the court concurred in the decision that the regulation of commerce and navigation

[1] Dayton, Fred Erving, *Steamboat Days*, pp. 8–9, Tudor Publishing Company, 1939.

was a power reserved to the Congress of the United States, and the monopoly was voided.

Capital which had been timid to embark in steamboat enterprises was available everywhere and the rivers and sounds and lakes became crowded with steamboats which supplied the first important transportation services which the country sorely needed.[1]

. . . America may, on her part, justly claim the making of many improvements on them, and the turning of the new motive power to profitable account with greater rapidity than England. . . . Taken as a whole, therefore, it would be impossible to find anywhere else finer specimens of naval architecture or more suitable engines for the special traffic on which they are engaged, than the boats now traversing the coasts, rivers, and lakes of the United States.[2]

Many historians place the responsibility for the decline of the United States merchant marine on the superiority of the British in the construction of steam-propelled, iron vessels. On this topic Marvin says,

Private enterprise had created in both America and Britain the mechanical facilities for constructing the hulls and machinery of seagoing steamships. In 1840, so far as skill in this form of construction was concerned, the two countries were practically equal. After 1845, when the Washington government gave a real though temporary protection to its steamship interests, . . . the American oceangoing steamers proved to be distinctly superior in their performance to their British rivals. It is important to remember this fact, because it has been too often asserted that the change from sails to steam found America unprepared and incapable of meeting British competition. Britain had more workshops, it is true. Her machinery-making industry, after many years of rigid protectionism, had become very firmly established. But there were no British workshops that were better than those at Boston, New York, Philadelphia, or Pitts-

[1] *Ibid.*, p. 31.

[2] LINDSAY, *op. cit.*, Vol. IV, pp. 121*ff.*

burgh. If our government had grasped the situation and acted as promptly, as boldly and generously as the British government acted, we should have beaten our kinsmen at building steamships, as we beat them at building sailships. American mechanics had just as much native aptitude for the one as for the other.[1]

In this is the real key to the relative decline of the American merchant marine. "If our government had grasped the situation and acted as promptly, as boldly and generously as the British government acted, . . . " During the period when the British were building up their first subsidized steamship lines and services, extending their trade and Empire, the people and the Congress of the United States were occupied with westward expansion, the Mexican war, the California gold rush, the Kansas-Nebraska Bill, and the growing rift between the economic interests and the political outlook of the North and the South.

During the 1840's, when the British were establishing some of their leading steam-shipping companies, companies that today are among the strongest in the world, the United States government asked for bids for a transatlantic mail service, to be carried on by steamships. In spite of spirited opposition by the advocates of wood-and-sail, such a contract was awarded to the Collins Company in 1847. This company competed most successfully with the English Cunard Line, founded and managed by the man who had tried unsuccessfully to secure capital and backing in Philadelphia for his steamship line.

E. K. Collins, to whom the steamship subsidy was granted in 1847, had been owner and operator of the Dramatic Line of packet ships on the North Atlantic route out of New York.

He contracted for twenty voyages a year and was to receive $19,250 per voyage; later it was raised to $33,000 or $858,000

[1] MARVIN, *op. cit.*, pp. 230*ff.*

per year. No pains were spared in the effort to beat the British. The national spirit was shown by contractors, who assisted in the enterprise by delivering to Mr. Collins at cost.

In 1850 the Americans were ready. Mr. Collins sold his packet ships and launched his fortune on the sea in his great new wooden paddle-wheel steamers, . . . This race between Britain and America was a world event and Mr. Collins beat the Cunards. He beat them once and beat them regularly, the average difference in time of voyage for the two lines in 1851 being seven hours going east and eighteen hours going west; . . .

This competition was in more than speed. It was an inroad upon the Cunard's monopoly. Upon the opening of the Collins service the steamship freight rate fell from £7 10s. to £4 . . . The Collins Line still represented the strictly express type of service built for speed, at which it succeeded. It thereby added great laurels to the American flag and name, but it netted only losses to the stockholders. In 1854 one of their steamers, the *Arctic*, was lost in collision on the Grand Banks. Two years later, the *Pacific* disappeared at sea . . . Then, even worse for the fate of the line, the great subsidy upon which it had rested was withdrawn—due, some say, to the jealousies of Boston, Philadelphia, and Baltimore, and to the business jealousies of the clipper ship owners, who made a combination in Congress which killed the Collins subsidy, and this promptly killed the Collins Line. It made its last voyage in 1858. During the eight years of its brilliant but unfortunate career the passenger traffic had increased five fold.[1]

While the Collins Line was competing successfully in the North Atlantic traffic, British marine engineers, aided by practical engineers with years of experience in the development of steam engines for ocean-going vessels and by machine shops whose workmen for decades had been acquiring skill in the making of castings and of machine parts, were advancing rapidly the improvements of their steamships.

[1] SMITH, *op. cit.*, pp. 124*ff*.

That the iron screw steamer was steadily driving all American ships from the sea, was plainly seen several years before the war, and sufficient warnings were printed in the periodicals of the day. Said the *Scientific American* on May 15, 1857:—

"There are no less than thirty steamships now running between New York and different ports in Europe. . . . But ten of them are American vessels, while the Boston, Portland, and Philadelphia lines are entirely European. . . . The whole number of steamships engaged upon the routes between Philadelphia, New York, Boston, Portland, Halifax, and Quebec, on this side of the Atlantic and the ports of Havre, Bremen, Hamburg, Southampton, London, Liverpool, and Glasgow, on the other side, is fifty-one. Of these only seventeen have paddle-wheels: all the others—thirty-four—are *screw propellers with iron hulls*. . . . These are the steamers that are fast 'routing out' our sailing craft in the Atlantic trade."

. . . On March 31, 1860, the *Scientific American* again referred to the subject:—

"Three years ago we directed attention to the great increase of foreign screw steamers, and showed clearly how they were rapidly taking away the trade that has been formerly carried by American ships. . . . To-day nearly all the mail and passenger, besides a great deal of the goods, traffic, is carried by foreign ships, *the great majority of which are iron screw steamers*. . . . We have not a single new Atlantic steamship on the stocks, from one end of the country to the other, while in Great Britain there are 16,000 tons of new iron screw steamers building for the American trade."[1]

Funds were needed for developmental work in marine engineering and in screw propulsion for ocean-going steamships; at this critical period in the development of American steam shipping, as related above, the government withdrew the subsidy, and an immediate and precipitate decline set in for American steamship building and operation. Even before the subsidy was withdrawn in 1858, however, when

[1] SPEARS, *op. cit.*, pp. 285*ff*.

a rising opposition to the payment of these subsidies became evident in Congressional debate in 1854, the decline in tonnage set in. The following table reviews briefly the developments:

DEEP-SEA STEAM TONNAGE IN THE AMERICAN MERCHANT MARINE

Year	Tonnage
1847	5,631
1855	115,045
1856	89,715
1857	86,873
1858	78,027

Private funds in the United States were not available in sufficient amounts to ensure developments and to compete with heavily subsidized lines such as the Cunard. The withdrawal of the subsidy meant the complete loss of position that American steamships were acquiring in the carrying and passenger trade and eventually the complete eclipsing of the American merchant marine by others whose governments provided generous and continuing subsidies through the critical period of establishment and, in some cases, throughout the years up to the present.

The consistent support of steamship lines by the British government through mail-contract payments and admiralty subventions has been reviewed;[1] the British never for an instant lost sight of the importance of their mercantile marine to the maintenance of Empire and of their supremacy in sea power. The early experience of the Collins Line and the sudden withdrawal of the subsidy as a result of political pressure foreshadowed the subsequent history of subsidies to American-flag lines.

While packets and clippers were winning distinction in their trades and steam shipping was being developed, the steady growth both of merchant tonnage and of the foreign commerce of the United States from 1830 to 1860 augured

[1] See Chap. I.

well for the future of shipping and trade as conducted by Americans in international commerce.

Year	Tonnage of American Merchant Marine in foreign trade	Total foreign commerce	Percentage carried in American vessels
1830	537,563	$134,391,691	89.8
1835	788,173	251,980,097	84.5
1840	762,838	221,927,638	82.9
1845	904,476	219,224,433	81.7
1850	1,439,694	317,885,252	72.5
1855	2,348,358	476,718,211	75.6
1860	2,379,396	687,192,176	66.5*

* MARVIN, *op. cit.*, pp. 193*ff.*

In view of present-day emphasis on and considerations of the higher building and operating costs for American vessels, it is of interest to compare the relative costs of shipbuilding and operating of this period. What were the comparative wage levels of those times? What type of man was attracted to the sea?

Lindsay, writing on these subjects, says,

> During the first half of this century [nineteenth] the masters of American vessels were, as a rule, greatly superior to those who held similar positions in English ships, arising in some measure from the limited education of the latter . . . American shipowners offered greater inducements than the English then did to young men of talent and education to enter the merchant service, as the amount of wages, alone, was two- and three-fold greater in the former than in the latter. . . . [1]

The same was true of American seamen.

By 1850 shipbuilders working in the East River yards of New York received from $1.50 to $1.75 for a 10-hour day; during the clipper-building boom wages went as high as $2.50 a day. Records of this same period for the Novelty

[1] LINDSAY, *op. cit.*, Vol. III, pp. 15*ff.*

Works (Iron), East River, 12th to 14th Streets, show employment of 1,170 men; among them were 359 machinists, 248 iron founders, and 242 boilermakers. These men earned on an average $1.50 a day.[1]

On comparative costs of shipbuilding

It was stated that a vessel built in Dantzig, according to the following detailed specifications, would cost 10£ 17s 6d per ton, and in the United States 12£ per ton; but that a similar vessel could not be produced in any part of Great Britain under 15£ per ton.[2]

Lindsay explains the high quality of American steamships:

No doubt much of this perfection arises from the complete subdivision of labour to be found throughout most of the great American establishments. . . . Their ship-owners require, . . . regardless of cost, men who thoroughly understand their respective duties, and in this, as well as in various other matters, England has much to learn from the Americans.[3]

The mechanical ingenuity of the Americans, encouraged by a shortage of labor and by the urge to reduce costs of operation, was an important factor in the highly favorable competitive position of American ships during this period of development.

In considering the current expenses of a merchantman, manual labour is one of the most important items, and, herein, our competitors, by means of improved blocks and various other mechanical appliances, so materially reduced the number of hands that twenty seamen in an American sailing-ship could do as much work, and probably with more ease to themselves, than

[1] Data from ALBION, *op. cit.*, pp. 150 and 302.
[2] LINDSAY, *op. cit.*, Vol. III, footnote, p. 141.
[3] LINDSAY, *op. cit.*, Vol. IV, p. 147.

thirty in a British vessel of similar size. With such ships we failed successfully to compete . . . "[1]

Civil War to the First World War (1860–1918). In the period leading up to the Civil War with their packets and clippers American ship operators had been able not only to maintain but also to improve their competitive position, to the extent that one of England's leading mercantile-marine historians had been led to say, "With such ships we failed successfully to compete . . . "

The year that saw the outbreak of the War between the States saw, also, a registration of 2,496,894 tons of American shipping in foreign trade; by 1865 this tonnage had shrunk to 1,518,350. What were the most important elements in this wartime shrinkage?

At the outbreak of hostilities the merchant vessels of both the North and the South became subject to seizure as prizes of war by the vessels of opposing sides in the conflict. Insurance rates on American vessels, therefore, went up rapidly and disastrously; after the loss of some vessels, foreign and American shippers refused to hire American ships, even in the trade of the Far East. As a result of this loss of freight, American shipowners disposed of hundreds of thousands of tons of their finest clippers and other merchant ships to foreign, mainly British, purchasers at from about 30 to 50 per cent of their original cost.

Sinkings occurred, but they were not on a large scale in the beginnings of the war; most of the merchant tonnage and the vessels suitable for use as privateers were owned in the North, which threw a blockade around the South and maintained it with considerable success for a time.

The position of Great Britain in relation to the effects of the Civil War on American merchant tonnage is of great interest and of considerable importance. Great Britain needed the cotton of the South for her textile industry, but

[1] *Ibid.*, p. 167.

even more she needed the wheat and flour of the North for food for her industrial workers. In securing the cotton and in giving aid to the South in their attempts to break the blockade and destroy merchant tonnage of the North, however, Great Britain saw a chance of crippling her keenest competitor and the gravest threat to the supremacy of her mercantile marine.

By reason of the lack of shipyards in the South, Great Britain allowed the construction on British ways of vessels that were to be used by the South in the destruction of the merchant shipping of the North. When these vessels were lauhched and fitted, they sailed under Southern commanders who had resigned from the United States Navy; they were manned by British crews, supplied with British coal, and resupplied at British coaling stations along their routes. They were free to take refuge in any British harbor or port, and they were kept informed, insofar as the British were able to do so, of the movements of United States vessels or destroyers in pursuit of them.

The most famous of these ships, of course, was the "Alabama," which destroyed a heavy tonnage of Northern shipping before it was finally cornered by the U.S. sloop of war, the "Kearsarge," off Cherbourg, and was sunk, June 19, 1864.

The claims of the North against Great Britain finally were settled, but this settlement played no part in restoring the former greatness of the American merchant marine.

While American tonnage was being sold and sunk, the British were increasing their tonnage largely, mainly in the screw-propelled, iron vessels with steam power, which the admiralty had come to favor as auxiliaries to the Royal Navy. Between 1860 and 1870 British Empire steamship tonnage increased by approximately 140 per cent, from 500,144 tons in 1860 to 1,202,134 tons in 1870, more than one-fourth of their total tonnage.

In the United States following the Civil War

. . . there was a conscious policy of developing the internal resources of the country by the Homestead Act, the construction of the transcontinental railroads and the building up of domestic industries by a high protective tariff, as a result of which interest was diverted from foreign trade. . . . In spite of the great expansion of our foreign trade the number of American vessels engaged in this service steadily declined until in 1898 the tonnage reached 726,213, the lowest figure since 1840. At the same time the proportion of our foreign trade carried in American vessels fell from 66.5 per cent in 1860 to 9.3 per cent in 1900, which was the lowest point reached.

The explanation of this steady decline in the American merchant marine is to be found, not in a lack of patriotism on the part of American shipbuilders or shippers, but in the larger profits to to be obtained from other branches of industry. This was a period of rapid railroad building, of the exploitation of our mineral and forest resources, and of the development of large scale manufactures. The greatest returns were to be had by the investment of American capital in these lines, and the ocean carrying trade was consequently handed over to other nations which lacked similar opportunities for internal development.[1]

The preoccupation of American investors with internal development was matched only by the indifference of the public and of Congress to the needs of the American merchant marine. The very great cost of the Civil War had caused a resort to every possible means of raising revenue for the national government; one of the chief sources of revenue became that from internal taxation or internal revenue. Among the internal-revenue taxes that retarded resumption of shipbuilding in 1865 was one of 2 per cent on hulls and another of 5 per cent on marine engines. Coupled with these were the highly protective tariffs raised during the war, tariffs that resulted in prices for American

[1] BOGART, *op. cit.*, pp. 655*ff.*

shipbuilding materials that were considerably above the prices for those same materials in foreign countries. American shipping, unaided by government subsidies, was unable to compete with the lower construction and operating costs of foreign shipbuilders and operators.

From time to time congressmen who realized the importance to the United States of a merchant marine attempted to secure favorable legislation, subsidies, or other aids that would revive the shipbuilding and shipping industries. In 1868 the tax on hulls and on marine engines was removed; in 1890 shipbuilding materials were placed on the free list in the tariff schedule.

Ocean-mail contract subsidies, as traced in Chap. IX, were sporadic, insufficient, and subject to too much political manipulation ever to play an important part in the growth or development of the merchant marine during this period.

United States ocean mail payments to American ships shrank from $750,295 in 1874 to $40,152 in 1878, and to $38,779 in 1880. . . . Before 1878 the United States had paid generous sums for ocean mail service to foreign steamship lines, but in 1878 it began the policy which continued to the end of this period in 1890, of paying a great deal more of ocean mail money to foreign than to American ships. Thus, in 1878, while American steamers received $40,152, foreign steamers received $159,827 from our government. In 1880 the figures were relatively $38,779 and $161,030; that is, four-fifths of the mail payments from the United States Treasury went directly into the pockets of foreign shipowners, nearly all of whom were aided in their successful efforts to drive our flag from the high seas by large subsidies from their home governments. In this year, 1880, Great Britain was paying $3,873,130 to her steamship lines, and was following the rigid practice which she adheres to still, of giving not one letter and not one penny of mail pay to American steamships if it could be prevented.[1]

[1] MARVIN, *op. cit.*, pp. 391–392.

Another factor was that in early American shipping merchants had sent out their own vessels to trade, families had become famous as seafarers and traders, and towns such as Salem and Stonington became famous for their ships and seamen; the personal element had been most important in this development. With the introduction of the expensive steamships, vessels became common carriers, and shipping lost its highly personal character; it became big business, and the pride that families and towns had felt in their blockade runners, their packets, and clippers was no longer an element. The element of national pride and interest was not yet great enough to overcome the lack of personal, family, or romantic interest that prevailed in the days of sailing ships or to draw men away from more profitable pursuits in the domestic field.

During the last four decades of the nineteenth century, while the American merchant marine was shrinking from more than 2¼ million tons in 1860 to slightly over 800,000 tons in 1900 and American foreign commerce was increasing from less than $700,000,000 to $2,152,000,000, British investments in the railroads and industries of the United States were increasing rapidly. Part of this increase was due to the existence of an investment surplus from the income realized on their industries and commerce, and part of it arose from the British policy of so placing investments in the countries of the world that the industries and types of transportation developed would supplement rather than compete with their own; *The Economist* says that direct British investments in the United States were "originally made for reasons of industrial strategy . . . "[1]

The supremacy of the British in shipping, in shipbuilding, in finance, in marine insurance, in communications, in the trade and commerce of this era certainly was an important element in the failure of the American merchant

[1] *The Economist*, Aug. 12, 1939, p. 306.

marine to revive after the Civil War. British vessels were available in sufficient tonnage to meet the needs of American shippers; the facilities for financing international transactions were present in London; Lloyd's held a dominant position in the classification of vessels, in marine insurance, and in the fixing of rates.

Some interesting uses were made of this monopoly, especially in the field of marine insurance and the registering of vessels. In 1870, Lloyd's refused to classify and register foreign vessels for more than 1 year at a time, a ruling that worked in particular against American vessels. In the period from 1880 to 1885 an average of 100 American sailing ships cleared from the port of San Francisco with grain for England and other European ports; these vessels competed successfully with the steam vessels operating on the route in the matter of speed, and they were able to deliver their cargo in a shorter time and with less damage than the steamships. Nevertheless, " . . . Lloyd's, by simply clapping on a discriminating and prohibitive insurance rate on American ships, was able to drive them from the seas. . . . "[1] In 1889, 30 American ships cleared with grain for England and Europe, and the competitive weapon of marine insurance had served its purpose in transferring the carrying trade in grain largely to British ships.

The position of the British and other foreign investors in American industries and transportation was important in the trade of the United States during this period; the results of these foreign investments were reflected, however, in more than the trade and commerce of this country.

. . . the country was on balance an importer of manufactures from Europe and a borrower of foreign capital. As such it could not have, and did not need to have, a foreign economic policy.

[1] CLARK, *op. cit.*, p. 265.

The foreign creditor makes the policy to which the colonial borrower conforms. Until the First World War, when the United States itself became the leading creditor nation of the world, the responsibility for maintaining and regulating the terms of international trade was in London and the other European financial capitals. It was not in Washington or in New York. When Americans borrowed what they needed from Europe and sold what Europe was willing to buy, they did not have to have a foreign economic policy. They did not have to think about how they could balance their foreign accounts. The accounts were balanced by London finance, which operated and managed what Americans call the gold standard. No special effort and no public action were required here, and so it seemed as if the gold standard worked impersonally and automatically, without human guidance. . . . [1]

As has been the case with debtor countries struggling to develop an industrial system, exports were largely agricultural products, minerals, and other raw materials. Gradually, however, the exports of manufactured goods were gaining, from 11 per cent of the total in 1860 to 29 per cent of all exports by 1910; the wartime demand of European countries skyrocketed this percentage to 47 in 1916, but by 1918 the percentage had dropped again to 34.[2]

In 1898, for the first time in her history as a nation, the United States faced in relation to her merchant-shipping tonnage a crisis that has arisen twice since in a far more acute and critical degree.

With the outbreak of the war with Spain the need for merchant tonnage as auxiliary to the United States Navy arose; only then did the people of the United States become conscious of the folly of their failure to create and maintain a merchant marine commensurate with their peacetime

[1] LIPPMANN, WALTER, *U.S. War Aims*, pp. 197–198, Little, Brown & Company and Atlantic Monthly Press, 1st ed., 1944.

[2] Figures from BOGART, *op. cit.*, pp. 655 and 798.

needs and adequate to meet any national defense needs that might arise.

The Navy lacked supply and coaling vessels; troop transport vessels were required. The government attempted to meet the emergency by requisitioning American tonnage and by buying and chartering foreign vessels. The results were a makeshift kind of Navy auxiliary; had the war been with a first-class power and of greater duration, the lack of an adequate merchant marine might well have resulted in disaster for the United States.

The public was aroused over this situation, but the shortness of the war and its outcome meant that the great need for developing and maintaining a policy that would ensure a large, modern merchant marine for the United States was soon forgotten. The United States had defeated Spain and had acquired some island possessions in the war.

The interest among Americans in foreign trade, in shipping, in foreign investments, in relations with the rest of the world has been increasing gradually as the preoccupation with internal development has lessened, as Americans have been widening their horizons and their areas of activity, as the interest of producers in foreign markets and of investors in foreign countries has increased, as the responsibilities of one of the world's great nations have impinged upon the United States and its citizens.

This awakening sense of responsibility did not result, however, in an awareness on the part of Americans of one of their vital national interests—that of an adequate American merchant-vessel service. The concern felt at the inadequacy of the merchant marine as revealed by the Spanish-American War quickly vanished or was overshadowed by the developing interests of the opening years of the twentieth century. The nation and its leaders did nothing in the years immediately following the war to build and maintain a merchant marine that would serve the

foreign commerce of the country and serve as an auxiliary to the Navy in time of emergency.

Writing of the reasons for the steady decline of the American merchant marine during the period between the Civil War and the close of the century, Bogart says,

> . . . the ocean carrying-trade was . . . handed over to other nations which lacked similar opportunities for internal development. This situation had not been felt as a serious handicap so long as our energies and capital were devoted to the internal development of the country, but when after 1900 our export trade began to take on larger dimensions certain disadvantages showed themselves. In many cases direct service between American ports and foreign markets, especially in South America and the Far East, did not exist, and it was necessary to ship goods via German or British ports. American exporters were thus placed at a disadvantage in their competition with exporters of those nations upon whose ships we depended.[1]

The low point in tonnage was reached in 1898, when 726,213 shipping tons was the registration for foreign commerce; in this same year the foreign commerce of the United States amounted to approximately 1¾ billion in value. From this low the tonnage increased to 1,076,152 in the year that saw the outbreak of the First World War.

In the years preceding the war, Congress made some attempts to aid the merchant marine. A provision in the tariff law of 1913 allowing a discount of 5 per cent of the duty on goods carried in American bottoms was voided by the Supreme Court as a discriminatory measure; shipbuilding materials and equipment were admitted duty free. Some of the more stringent prohibitions on American registry of foreign-built vessels were liberalized, and such vessels under 5 years of age were permitted to register and become American merchant vessels.

[1] BOGART, *op. cit.*, p. 661.

With the flight of foreign-flag ships to their home ports in the summer of 1914 and the months following, the United States—with a great capacity to produce the industrial and agricultural goods that were of crucial importance to the nations involved in the war—was left with those goods piling higher and higher in the areas surrounding her ports; the berths of the ports were empty except for the few American vessels coming and going and the few foreign vessels assigned to carry goods that their governments decided they *must* have from the United States.

To meet the needs of foreign commerce of the United States the Sixty-fourth Congress passed the Shipping Act of 1916,

> An Act to establish a United States Shipping Board for the purpose of encouraging, developing, and creating a naval auxiliary and naval reserve and a merchant marine to meet the requirements of the commerce of the United States with its Territories and possessions and with foreign countries; to regulate carriers by water engaged in the foreign and interstate commerce of the United States; and for other purposes.

Under peactime conditions this might have been an adequate charter for the development of an American merchant marine; in effect, however, it became a war-emergency measure. In July, 1917, by executive order the President delegated to the newly created Emergency Fleet Corporation the power to determine a construction program for merchant vessels; to the Shipping Board was delegated the authority to acquire, operate, manage, and dispose of all vessels.

Under the urgencies of American entrance into the war and her war shipping needs, an immediate shipbuilding program was launched on a gigantic scale. The need for speed in construction and the problems involved in such

[1] Merchant Marine Laws, 1939–1940, p. 186, Marine Progress, Inc.

building in a country that had let its shipping and shipbuilding industries lag resulted in the construction of vessels for which blueprints already existed; much of the tonnage was obsolete at the time of its construction, so far as peacetime uses were concerned.

In spite of the lack of adequate shipyard facilities and of trained shipyard workers, the United States established a new record in the construction of merchant tonnage; this program did not reach its peak, however, until 1920 and was not completed until 1922. The resulting fleet of some 2,500 vessels, representing approximately 11 million deadweight tons, cost the people of the United States about 3 billion dollars—a terrific price to pay in dollars alone for the neglect of anything so vital to the national interests as the merchant marine. And these vessels were delivered too late to be of use in the conduct of the war; shipbuilding is too large and too intricate an industry, requiring highly skilled workers, to be developed on short notice.

What methods were used by the Shipping Board to secure merchant tonnage that would meet the needs until the vessels under construction and authorized could be put into service?

In 1917 the total tonnage of the merchant marine of the United States was 8,871,037, of which 2,446,399 was registered for foreign trade, the remaining tonnage being coastwise, lake, and river vessels; many of these latter ships were entirely unsuited to the ocean trades. However, all vessels that could safely be put into the ocean routes were transferred from the lake, river, and coastwise routes.

Privately owned American tonnage was purchased, vessels in service and under construction were requisitioned, enemy vessels interned in the United States were taken over and put into service, foreign vessels were admitted to American registry, tonnage was chartered from neutrals, vessels were purchased from foreign owners, and foreign

vessels even were admitted to the coastwise trade—a monopoly of American vessels since 1817: every possible source of tonnage was drawn on to meet the emergency. Yet, in spite of all efforts, we had to depend heavily upon Great Britain and France for transporting our troops and their supplies to the European battlefields. Under different circumstances such dependence might well have been disastrous.

Since the First World War. The Merchant Marine Act of 1920 reveals that Congress and the people of the country were aware of some of the problems that faced them; the Preamble to that Act reads,

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States; and it is hereby declared to be the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine. . . . [1]

The 1920 act provided for construction loans based on the higher construction costs in American shipyards, for mail contracts for 1-year periods with the privilege of renewals; it did not deal adequately, however, with the question of the scrapping and disposal of the huge war-built tonnage, already obsolete and unsuitable for most of the trade routes of the world.

Details of the disposal of this tonnage are outside the province of this report; it is sufficient to say that it was a

[1] Merchant Marine Laws, *op. cit.*, p. 196.

problem that was never solved in a way to give assurance to private owners and operators of American-flag ships and to encourage the building and owning of merchant vessels by Americans.

The underlying philosophy of the Act of 1920 was that the Shipping Board should be an agency for organizing and establishing the merchant marine with a view to gradually transferring the government fleet to private ownership and operation. The Board was to find employment for the greatly increased fleet by establishing regular services. It was to maintain such routes until business had been developed and then sell the lines to private operators.

While this policy might have seemed reasonable at the time of the passage of the Act, the great slump that occurred in trade and shipping in the latter half of 1920 and in 1921 created new and unforeseen problems. The market value of the vessels dropped precipitously, idle tonnage increased, and operating losses were heavy.

By the middle of 1922, the volume of idle tonnage was enormous, . . . [1]

While the Shipping Board and private operators were attempting to establish and maintain the trade routes that were considered essential to the commerce of the United States and while they were attempting to solve the problem of the use and disposal of the surplus war-built tonnage, foreign nations were resuming their building of merchant vessels, speedy ships of specialized types that quickly took the cream of the carrying trade from the obsolete, slow vessels remaining to the United States from the war. Again the carrying trade of the nation was largely in the hands of foreign carriers, although the proportion did not reach the high of over 90 per cent, as in the early years of the twentieth century.

[1] RADIUS, WALTER A., *United States Shipping in Transpacific Trade*, pp. 163–164, Stanford University Press, 1944.

The attempt of the United States Shipping Board to establish and maintain certain essential trade routes until the time these routes would be taken over by private companies for operation began to meet with some success in the middle twenties. In August, 1925, the first purchase of such a cargo trade route was made by the American Export Line, which began operations between North Atlantic and Mediterranean–Black Sea ports. Other lines that purchased routes from the Shipping Board in the next year were the American South African Line, the Pacific Argentine Brazil Line, the Admiral Oriental Line operating from Pacific Coast ports, and the Munson Steamship Line. Other lines already established on important trade routes purchased some of the vessels owned by the Emergency Fleet Corporation.

Public concern with the question of the merchant marine again became evident with the passage of the Merchant Marine Act of 1928, in which Title I—Declaration of Policy states: "The policy and primary purpose declared in section 1 of the Merchant Marine Act, 1920, are hereby confirmed."[1] The act liberalized some of the provisions of the 1920 law in regard to loans and mail contracts; further, it attempted to ensure the construction of new vessels, by making the awarding of liberal mail payments dependent upon the placing of newly constructed vessels in the service. "Of the forty-three ocean-mail contracts awarded, only twenty actually required the construction of new vessels. While these specified a total construction of 51 ships, only 29 vessels were built under contract requirements."[2]

In spite of repeated efforts to encourage the entrance of American private interests into the field of international shipping, the tonnage so engaged fell from the high of 1920–1922 of over 10 million gross tons to 6,296,000 in

[1] Merchant Marine Laws, *op. cit.*, p. 213.

[2] RADIUS, *op. cit.*, p. 167.

1930; during the early depression years, with a fall in the value of foreign trade of the United States from the 1929 figure of $9,640,356,000 to $2,933,790,000 by 1932, the shipping industry was again hard hit.

In the meantime, charges arose concerning abuses of the ocean-mail contracts awarded under the Jones-White or the Merchant Marine Act of 1928; a Senate investigation was called for, and in 1933 a committee with Senator Black of Alabama as its chairman conducted the investigation.

These hearings were supplemented by an interdepartmental investigation by the Postmaster General. The findings of these committees are a matter of record; the conclusions were that immediate action was necessary. The following quotation from the Preliminary Report of the Senate Special Committee sums up the results of fifteen years' operations under the Merchant Marine Acts of 1920 and 1928:

"The subject of this investigation and report is the unsuccessful and tragically disappointing attempt of the United States to create and maintain an adequate privately owned American Merchant Marine. The American Merchant Marine is neither adequate nor is it in any true sense privately owned."[1]

The investigations and study of the problem of the merchant marine convinced leaders that an entirely different approach was needed to the whole problem. On Mar. 4, 1935, President Roosevelt, in his message to Congress, proposed that new legislation be enacted eliminating the construction loans and the ocean-mail contract subsidies and providing instead government aid in the form of direct payments representing the higher American shipbuilding and ship-operating costs. The result of the President's recommendations was the Merchant Marine Act of 1936, analyzed and discussed in detail in subsequent chapters and in Appendix G.

[1] *Ibid.*, pp. 167–168.

Under the 1936 legislation the gradual replacement of the merchant fleet was planned for; actual building as a result of the legislation began in 1938 in connection with the plan that called for the construction of 50 vessels yearly. The stepping up of the building program as a result of the outbreak of war in Europe and the inauguration of our own emergency wartime shipbuilding program make an evaluation of the effects of the 1936 Merchant Marine Act impossible. It was, however, an extremely important factor in the ability of American shipyards to make a phenomenal increase in the construction program when the crisis demanded.

Other aspects of the foreign commerce problem were the subject of legislation and of concern to the nation's leaders. Cordell Hull, Secretary of State from 1933 to 1944, was interested primarily in the increase of American foreign trade through a return to the principle of reciprocity and most-favored-nation treatment, established through great persistence and at real sacrifice in the early days of the nation, from 1784 to 1828, and subsequently lost sight of and gradually abandoned.

By the Trade Agreements Act of 1934 the President was empowered to lower tariffs by as much as 50 per cent in return for concessions from the nations benefiting from the lowering of the rates; however, no articles could be shifted from the dutiable to the free list or from the free list to the dutiable.

Hull immediately began negotiations for the concluding of trade bargains with the nations that were willing to enter such negotiations. The first of these treaties was signed with Brazil on Feb. 2, 1935, to become effective Jan. 1, 1936; subsequent to the Brazilian treaty similar ones were concluded with many of the other nations involved in American international trade.

Trade among nations during the 1930's was restricted

not only by tariffs[1] and the depression but also by the rising totalitarianism that removed the exchange of goods from the realm of trade and made of it an economic and political weapon. The practice of dumping to secure exchange, to wipe out competitors, all the perversions of trade of this period with its controlled exchanges, its preferences, its commodity controls, quotas, subsidies, embargoes, etc., made this a difficult time in which to conduct foreign trade and to reestablish the American principle of reciprocity and most-favored-nation treatment. The work of Hull in this field was of great value, its greatest value doubtless lying in the realm of improved relations between the United States and other nations.

How much of the increase in the value of the foreign trade of the United States goes back to the Hull Trade Agreements it is impossible to say; the low point of $2,608,413,000 had been reached in 1933. From 1933 on the value of trade was as follows:

Year	Value
1934	$3,763,029,000
1935	3,906,536,000
1936	4,631,251,000
1937	5,779,083,000
1938	5,764,593,000
1939	5,013,594,000
1940	6,346,329,000*

* Statistical Abstract of the United States, 1940, Department of Commerce, U.S. Government Printing Office, Table No. 554, p. 489.

While the value of trade was building up gradually during the thirties, what was the situation of the industry

[1] The whole question of the tariff policy of the United States, its relation to the trade policies of other nations, to dumping practices, to discriminatory practices, and to developments such as the trade associations in England, needs to be given an unbiased, factual examination; such a study is not a part of this report. It is evident that it is too large and important a question to be dealt with as briefly as would be necessary in a report of this nature. For the same reason the history of dumping as a policy of British industry and trade has not been dealt with in the British section of this report.

that served this trade? What was the condition of the American merchant marine?

John E. Slater, Executive Vice-president of the American Export Lines, speaking before the National Institute of Labor, Agriculture and Industry, at the University of Wyoming, in August, 1944, said of the merchant marine at the outbreak of the European war,

At that time, physically, the Merchant Marine consisted of approximately ten million tons of ships. That could be broken down into about six million tons of ships which were used in our domestic coastal trade; slightly under one million tons of tankers used very largely for bringing petroleum products from the Gulf to the Atlantic Seaboard and from the Caribbean to various refineries; and lastly, it consisted of slightly over three million tons of ships that were actually in foreign trade. In other words, we had a Merchant Marine of about ten million tons.

As of that same time there participated in the carryings of foreign trade of this country approximately 21,600,000 tons of foreign ships that should be contrasted with about 3,300,000 tons of American ships. What was the physical condition of this fleet? The average age of it as of that time was approximately nineteen years. The average age of the foreign fleets was approximately fourteen years. Of the ships which we had at that time, less than ten per cent of the ships between six thousand and ten thousand tons were less than five years old and less than one per cent of the ships between two thousand and six thousand tons were less than five years old.

As contrasted with this, the percentages for the foreign countries range from twelve to thirty-five per cent. In other words, thirty-five per cent of the Japanese fleet consisted of ships which were less than five years old. As a consequence of that difference in age there was a difference in efficiency. The average American cargo ship had a speed of approximately ten knots. The average speed of the British fleet of the cargo-carrying capacities was about twelve knots . . . as of the beginning of World War II, we were carrying about twenty-five to thirty-five per cent of our

foreign commerce expressed in volume and about thirty-five per cent expressed in value. . . .

But, after all, a Merchant Marine, or any industry, does not consist merely of the physical characteristics as to the men and as to the management: It is a fact, sad but true, that in this period when the Merchant Marine was in the doldrums, both the best types of men and best types of management were in other activities. The result was that until we began to take some additional interest in the Merchant Marine we were not attracting to our seaborne commerce the best types of young men or the best types of management. But that situation has changed, and if nothing else has been done to an industry in this war, it has brought to the American Merchant Marine some of the finest types of young men whose exploits during these last two years match those even of our fighting forces.[1]

Since our ships serve our foreign trade, what is being done to establish policies to promote such trade?

. . . a foreign policy is a well-rounded, comprehensive plan, based on knowledge and experience, for conducting the business of the government with the rest of the world. It is aimed at promoting and protecting the interests of the nation. This calls for a clear understanding of what those interests are and how far we can hope to go with the means at our disposal. Anything less than this falls short of being a national foreign policy. . . .

To look after our own national interests is the first duty of government. It is the function of foreign policy and of our diplomacy to afford those interests maximum protection consistent with good international relations. . . .

Such a policy is imperative if we are to build up our foreign trade. The root of such a policy is that we give diplomatic protection to our business with other countries. Exchange of goods is vital to our own welfare and to the welfare of other nations. Development of economic life and of raw materials by our citizens in other countries and by foreigners in our country

[1] SLATER, JOHN E., The Merchant Marine and What It Means to This Country, address given at the National Institute of Labor, Agriculture and Industry, Aug. 7–9, 1944, University of Wyoming, Laramie, Wyoming, typewritten copy.

is a necessity if we are to have exchange of commodities. Our citizens must, therefore, reside and do business abroad and foreigners must reside and do business in the United States. Our citizens must have confidence that so long as they comply with the laws of foreign countries they will not be harassed and discriminated against, just as foreigners must have these assurances within our borders. This must be our policy, and it follows that our diplomacy must support this policy by proper action—not to support dishonesty and exploitation but to support honest effort.

We have never had an established national attitude toward American foreign trade in the sense of an attitude that is maintained unchanged from one administration to another. Our business is thus at a grave disadvantage in competition with the business elements in other countries, which are able to plan far ahead in agreement with government.[1]

With the establishment of a stable foreign policy as related to American business in other nations and in international trade, what becomes the task to be performed by our merchant ships?

It is to provide, year in and year out, dependable and efficient service, upon regular schedule, covering all trade routes throughout the world that are necessary to the handling of our foreign trade, both exports and imports. This means maintaining services that were in existence before the war, improving some of them with new and better and perhaps more ships, and it very definitely means the establishment of new routes and services where trade is in prospect and where the development of our foreign commerce in the broader aspect that has been emphasized requires that such services be made available. . . .[2]

We have ships; we have shipbuilders—labor and management—who have done a magnificent job in meeting the

[1] GIBSON, HUGH, *The Road to Foreign Policy*, pp. 9*ff*. Copyright 1944 by Doubleday, Doran and Company, Inc., 1st ed.

[2] ANDERSON, R. EARLE, What Profit Merchant Marine, mimeographed manuscript, p. 20.

crisis; we have the finest type of young men who have served with the merchant fleet in the crisis, many of whom are seeking every chance for further training and advancement with the hope of continuing to serve in a postwar American merchant marine that will protect and serve the interests of the nation throughout the world. These fine vessels and these able, ambitious Americans can serve an expanding foreign trade, however, only if our leaders and our government take the steps necessary to ensure the policies and conditions that will develop and maintain a growing volume of goods flowing into and from the ports of this country and those of all other nations of the world.

That Americans can trade, build and operate ships, and prosper in world trade has been repeatedly demonstrated in our proud history; that we do so now and in the future is essential to the welfare of the United States and of the world.

CHAPTER IX

SUBSIDIES FOR THE AMERICAN MERCHANT MARINE

In the history of American shipping we have pointed out that shipping and foreign trade were essential to the economic development of the colonies and of the nation after the Revolutionary War and down to the Civil War.

During this period the shipping industry was encouraged and built up by the use of preferential tariffs, by preferences in tonnage dues, by the general encouragement given to production for the export market of the young nation, but the industry was encouraged more generally and broadly by the educated and informed public opinion that recognized the need and value of shipping, and by the general policies of government that were directed toward the development and maintenance of a merchant marine and extension of foreign trade. By reason of this public interest and general national policy, support of a broad general character was given to the development of shipping and foreign trade; this was even more important than the direct aids that were extended.

Today we think of subsidies in the narrower sense of direct financial aid. In the history of British shipping we pointed out that the British have given aid in many indirect forms, which, while not referred to as subsidies, are in reality subsidies under a broader definition.

That the subsidies and aids given to shipping during our early history were effective is proved by the fact that the growth of the merchant marine more than kept pace with

the growth of the foreign trade of the United States throughout the four decades from 1790 to 1830. Farsighted statesmen during this period realized the necessity for a great fleet of merchant ships, both for commerce and for national protection.

After this early period of support the major interest shifted to internal development and exploitation of resources; further development of a foreign trade policy seemed insignificant beside decisions relative to the growth of the West, internal transportation, and related problems.

> Thus in our public life we fell into political habits which made it inordinately difficult for the nation to form public policy. Politics became an arena in which local and private interests competed and compromised their conflicts. The very idea of representative government, that is to say of government by men who represented the nation and its enduring interests and significance, gave way to government by delegates.[1]

During this era of internal development subsidies were granted to shipping companies in the form of mail-contract payments; with brief interruptions these have been paid almost continuously since they were first instituted in 1847, in small amounts when compared with the British mail-contract payments and admiralty subventions. The subsidy payments were made to many different and comparatively small shipping companies for a few years, withdrawn, then after several years renewed or awarded to other companies; subsidies in the United States have not been used to develop service on the major routes of world trade, nor have they been used to establish and maintain shipping companies that could provide services adequate for the world's major trade routes. Because of a lack of foresight in the granting of subsidies and because we relied on direct

[1] LIPPMANN, WALTER, *U. S. War Aims*, p. 205, Little, Brown & Company and the Atlantic Monthly Press, 1st ed., 1944.

subsidies to the exclusion of other aids to shipping inherent in favorable broad national policies, they have been ineffective in the development of an American merchant marine.[1]

The first mail-contract payments were instituted in 1847 to provide service between the United States and certain European ports. Before the Civil War this subsidized mail service had been extended to Panama and on to Astoria in the Pacific Northwest, and to Havana.

In the period following the Civil War, 1864–1877, new services to South America, China, and Japan were established; however, contracts were not renewed on the former subsidized services to Europe.

After a lapse of 14 years, during which no mail-contract payments were made, subsidized services were again instituted with certain European ports, with Mexico, and with Venezuela. Various other services were under contract for varying lengths of time between 1891 and 1920—to South America, to Panama, to Hong Kong, and to Australia.

Between 1920 and 1929 six of the leading lines under the United States flag received payments under the mail contracts totaling just under 5 million dollars. Under the 1928 act 32 companies were awarded contracts, which entailed the payment of $154,632,907 up to June 30, 1936.

When the Maritime Commission abrogated all contracts in 1937, immediate settlements were reached with 23 companies holding 32 ocean-mail contracts. "These agreements, providing for the mutual release of all claims, were settled at a net cost to the Government of approximately $750,000."[2] Further payments on claims amounted to about $200,000; so the final total on claims probably did not run over 1 million.

[1] See details on mail-contract subsidies to United States shipping, Appendix F.

[2] Report of the United States Maritime Commission, 1937, p. 9.

MAIL-CONTRACT PAYMENTS FOR OCEAN ROUTES, 1847–1937

Years	Amount	
1847–1858	$ 14,400,000.00	
1864–1877	6,500,000.00	
1892–1920	29,630,929.00	
1920–1929	4,801,953.00	
1929–1936	154,632,907.66	
1937	1,000,000.00	(approximate claims settlements)
Total	$210,965,789.66*	

* Figures taken from Saugstad, *Shipping and Shipbuilding Subsidies;* Annual Report of the Postmaster General, 1936; and United States Maritime Commission Report, 1937.

The above figures include payment for mail services as well as subsidy, and no data are available that will permit separation of compensation from subsidy.

Construction subsidies were given in the United States first with the passage of the Merchant Marine Act of 1936.[1] This act provided for a construction-differential subsidy for the purpose of equalizing costs of construction for American and foreign shipbuilders and owners. The total paid to a company represented the difference in cost of vessels constructed in American yards over construction costs for those same vessels in foreign yards.

Amounts paid out under the 1936 Act were as follows:

Year	Amount
1939	$ 10,076,894.22
1940	46,432,974.44
1941	73,963,760.77
1942 (to June 30)	58,487,881.28
Total	$188,961,510.71

Operating subsidies under the 1936 act provided that American operators be granted a subsidy to the amount of the difference in operating costs for American and foreign vessels of the same types—an operating-differential subsidy.

[1] For a detailed summary of the 1936 Merchant Marine Act, see Appendix G.

Amounts paid out under the 1936 act on this account were as follows:

Year	Amount
1938	$ 8,759,442.76
1939	11,114,578.13
1940	12,104,590.74
1941	13,056,134.55
1942 (to June 30)	4,069,329.37
Total*	$49,104,075.55

*Subject to recapture; see Appendix G, , for recapture provisions. The figures given herewere supplied to the American Maritime Council by R. E. Anderson, Director of Finance, U.S. Maritime Commission.

TOTAL SUBSIDY PAYMENTS (1847–1942)

Type	Amount
Mail-contract (figure includes payment for service)	$210,965,789.66
Construction-differential	188,961,510.71
Operating-differential	49,104,075.55
Total	$449,031,375.92

If we take the entire amount paid in subsidy and compensation for mail services during the period from 1847 to 1942, we find that it amounts to a little more than 4 million dollars per annum, which is an insignificant figure in comparison with our national economy.

It appears desirable that we estimate the subsidies that may be paid under the 1936 act with a postwar merchant fleet of 15 million tons and of 20 million tons.

The following table provides such an estimate upon these assumptions.

As regards construction-differential subsidies, we have assumed ships in the foreign trade to have a 20-year life and have estimated construction subsidies at a rate of $100 per dead-weight ton.

In the operating-differential subsidy we have taken $5 per dead-weight ton per annum.

TABLE OF ESTIMATES FOR POSTWAR AMERICAN MERCHANT MARINE

Total fleet	15,000,000 d.w.t. (includes domestic tonnage)	20,000,000 d.w.t. (includes domestic tonnage)
Regular Line (foreign).....	5,800,000 d.w.t.	8,800,000 d.w.t.
Tanker (foreign).....	3,800,000 d.w.t.	3,800,000 d.w.t.
Total (foreign).....	9,600,000 d.w.t.	12,600,000 d.w.t.
Construction subsidy.....	$48,000,000	$ 63,000,000
Operating subsidy.....	48,000,000	63,000,000
Total subsidy.....	$96,000,000	$126,000,000

In the above calculations we have applied the subsidy to all vessels operating in foreign trade. As a matter of fact, subsidies are not applied to all such vessels, but only to about 50 per cent of them. This would make the total subsidy on a 15-million-ton fleet about 50 million dollars per annum and on a 20-million-ton fleet 65 million dollars per annum. These again are insignificant figures as related to our national economy and should not be controlling in reaching a decision as to whether we shall subsidize our merchant fleet engaged in foreign trade. If we assume a subsidy of 50 million dollars per annum and a national income of 100 billion, such subsidy is only 0.05 per cent of our national income. If we assume foreign trade of 15 billion dollars per annum, a subsidy of 50 million is 0.33 per cent of such foreign trade.

The trouble with the subsidy in the public mind is not so much the amount of subsidy but the fact of subsidy. The American public is so wedded to the theory of free competition and the survival of the fittest that it finds objection to the idea of granting any special favors to any particular industry.

Arguments have been made to the effect that we are not subsidizing our merchant marine but that we are subsidiz-

ing rather our wage level and our American standard of living. Such arguments carry a certain amount of conviction and logic.

It would seem, however, that we would get a clearer and sounder idea of the relationship of subsidies to our national economy if we think of subsidies as applied to our foreign trade rather than to our merchant marine. The merchant marine is only the instrument and facility with which foreign trade is carried on.

Foreign trade is a service to the nation in maintaining its international position and in maintaining its national economy at prosperity levels. As such it is a service to all industries and to farmers and industrial workers alike.

We might contemplate that subsidies be paid by contributions from various industries that benefit through foreign trade, but we should find that the benefits flow to so many industries and to so many individuals and classes as to call for a quite general contribution. Simplicity requires, therefore, that subsidies insofar as they are direct payments should be made from the public treasury not as a favor to a particular industry but as a support to all industries and to an essential national policy.

All industries should think of foreign trade as the means by which essential materials are obtained and their sales are raised to profitable levels. Industries that do not contribute directly to the foreign trade are the indirect beneficiaries of the national prosperity flowing out of it.

Subsidies considered as a public favor to a particular industry necessarily make that industry subservient in some degree to governmental and bureaucratic control, as being dependent upon public bounty. This is unfortunate in that it tends to destroy the initiative and independence that go with private industry entirely free from such governmental restraint. Subsidy is a device that we must of necessity use for the time being until we have created

in our national scheme those other constructive aids necessary to the development of our foreign trade to prosperity levels.

Indirect subsidies or aids are present and inherent in the British setup, where foreign trade is the whole life and substance of the nation and the Empire.

In any aid that the British give to their foreign trade or to their mercantile marine they are not subsidizing a particular industry; they are subsidizing a service to all industries as well as their very national existence.

Those British industries that depend upon foreign trade or participate in foreign trade consider ships as the water-borne trucks that bring raw materials to the factory door and distribute their merchandise to foreign markets beyond the seas. Obviously without such a service Britain would be just an island in the North Sea.

Direct subsidy is merely a convenient form of immediate aid to foreign trade and shipping; what we require in the long run is something more than this direct pecuniary aid.

We require, in the first instance, a well-established and universally accepted enduring national policy that accepts foreign trade as an essential part of our national economy and a strong American merchant marine as an essential facility to the conduct of such trade.

Such a policy must be so universally accepted and so firmly established as to be a permanent part of our national setup as to assure a progressive growth and ultimate stability to the industries that shall be the instruments of our foreign trade. So long as we have political debate as to whether we shall engage in foreign trade on a large scale or maintain a merchant marine commensurate with our national economy, we shall lack those permanent laws and initiatives that will ensure growth and stability and will give to private industry and capital the encouragement necessary to venture in this field.

When we have decided as a matter of national policy that we are going to become a great maritime nation, we shall then take those steps necessary to organize our government, our industry, and our representation abroad on such a basis as will give us a fair opportunity to compete with other nations who regard such organization as essential to their national existence. This means that we shall be prepared to do all those things that the British have done, are doing, and propose to do to maintain their supremacy. When the American government and the American people have determined to do these things and when our foreign trade and shipping receive the support and benefits that flow out of the implementation of such determination, then we shall have our appropriate share of the commerce of the world and a commensurate merchant marine without the need of direct financial aid. The benefits of favorable, continuing national policies in establishing an enduring and stable industry far outweigh temporary benefits of subsidy on a year-to-year basis under the control of changing laws and fluctuating political movements.

The British in their postwar plans emphasize, first and foremost, the need for having their foreign trade and shipping under the control of private industry, relieved of government domination; they want help from Government but not interference. We must strive to the same end but recognize that the British have been traveling this road for five centuries and that we have a long, hard road to go.

Much emphasis has been laid upon the British situation and the British method of handling it and the solutions that they have arrived at; this is essential to the working out of a practical scheme for the conduct of our own affairs in this field.

But in contemplating the necessity of doing this job and the thoroughness with which it must be done, we cannot ignore the competition that we must meet from other

maritime nations. If we assume that the foreign trade of the aggressor nations is to be restricted and restrained for a period of years, we must still give consideration to so great and potential a factor as Russia. Russia will emerge as a great industrial nation. Prior to the outbreak of the European war, Russia had declared her intention of ultimately carrying the whole of her exports and imports in Russian vessels. While it is not likely that she would be able to maintain such a sweeping policy because of the necessity of making concessions to other nations, it cannot be ignored that she is potentially a large factor to be considered in any study of international commerce.

In 1932, Russia carried only 5 per cent of her exports in Russian ships, and very little of her imports, but by 1938 she was carrying 82 per cent of her imports and 30 per cent of her exports in Russian vessels. Russian shipping tonnage increased from 314,000 gross tons in 1925 to 1,273,000 gross tons in 1938.

As an evidence of the attitude of the British toward this growing sea power, in 1938 the *Annual Report* of the Chamber of Shipping of the United Kingdom said among other things, " . . . as regards Russia, the British Government should insist that a definite and gradually increasing proportion of the United Kingdom imports of whole cargoes of timber and its products be carried in British ships from USSR loading points."

It seems likely that we shall have a large and growing foreign trade with Russia, and the present cooperative relationship between the two nations leads to the hope that this would be carried on in an entirely free and cooperative spirit. However, to assure ourselves of the maximum degree of cooperation it is necessary that we do our own job well.

It should be noted that the merchant marine of Russia in all probability will be government-owned and -operated, *i.e.*, it will enjoy a 100 per cent subsidy; our salvation lies

in the pursuit of the benefits that grow out of private operation and initiative.

The British already have offered objections to the subsidizing of our merchant fleet. We obviously cannot afford not to resort to this temporary expedient for extending such aid to our foreign trade and shipping as may be necessary to permit it to grow and progress during those years in which we are creating the governmental, industrial, and foreign organizations necessary to enable us to compete on equal terms with other great and long-established maritime nations.

CHAPTER X

OTHER AIDS TO AMERICAN SHIPPING

In contemplating forms of aid to American shipping other than that of direct financial subsidy we are confronted with the fact that American industry for purposes of our domestic economy is organized along lines of free competition; the development of monopolies, price-fixing agreements, associations, or cartels for the control of markets is forbidden under our present laws. We are not free, therefore, to adopt practices in the foreign field that do not conform to those in the domestic field.

Britain, on the other hand, has no antitrust laws. Her industries have developed along monopolistic rather than competitive lines. The primary consideration is that of foreign trade rather than that of domestic economy; the domestic situation is subordinated to the international.

Bearing in mind both the existing British situation and the potential Russian, we must consider whether our system is suited to the development of a healthy foreign trade.

It may develop to be desirable to permit certain modifications of our trade practices as related to the foreign field. Small businesses are incapable of maintaining in foreign fields the strength and prestige necessary to compete with large foreign corporations and combinations operating on a national scale and under a unified national policy. The size and importance of our commercial units that are doing business in the foreign field must be fairly comparable to those of our international competitors.

Deferred rebates were used by us for a time, but these were declared illegal by the Merchant Marine Act of 1920.

Preferential rail rates have been tried out at various times but dropped because of objections by the shippers, the government, and others.

Cartels under our present political philosophy are considered illegal, and the antitrust acts recently have been the basis for violent and political attack upon cartels.

The Webb-Pomerene Act undertook to grant certain freedom in the development of corporations and combinations for the purpose of carrying on foreign trade, but recently there has been a disposition to interpret the provisions of this act in a much more restraining manner with the result that certain corporations and organizations that developed under the provisions of the act now find themselves the subject of political attack and governmental prosecutions.

The position of disadvantage in which our industry finds itself as related to foreign trade has recently led to the suggestion, somewhat encouraged by the British, that American industry or powerful units of American industry might be organized under British laws. This is a matter for serious consideration among our statesmen and political leaders.

Until fairly recent years the granting of construction loans has not been a continuing policy in relation to American shipping.

The Collins Line, one of those organized to take advantage of the mail-contract-services payments from the government, received some time after 1847 a construction advance of $385,000; no interest was charged on the loan for the first 2 years. This amount was repayable over a 10-year period.

In the Merchant Marine Act, 1920, the Shipping Board was authorized to set up a fund for the granting of loans for construction of new vessels and reconditioning or conversion of old ones. The money for this fund was to come

from the sale or charter of the vessels then owned by the government as a result of First World War building and government ownership and operation.

Under this loan provision authorizations were issued for a total of $145,131,165 for the construction of 41 new vessels and the reconditioning of 19 old ones.

The original limit set on the amount of the fund was 25 million dollars, a limit that was raised by a law of March, 1927, to 125 million, and by the Merchant Marine Act of 1928 to 250 million.

The terms of the loans were as follows:

1. Period of loan—20 years, with certain specifications.

2. Rates of interest—Not less than 5½ per cent on inactive vessels or those in coastwise trade; to foreign-trade vessels the lowest rate of yield of any government obligation issued after April, 1917, except postal savings bonds. Later, interest during construction, etc., and for vessels in foreign trade was fixed at not less than 3½ per cent.

3. Loan limit—Limit of not more than 75 per cent of the cost of construction or reconditioning, secured by a first mortgage and by an insurance policy made in favor of the Shipping Board.

Tariff laws in our early history were passed with a view to their effect not only on the development of manufacturing but also on the development of shipping and the carrying trade by granting preferences to American vessels.

Later tariff laws, under the political influences that have come to dominate the American Congress, were directed to protection of certain industries and of producers of raw materials and farm produce. The extent of protection afforded usually bore a direct relation to the amount of pressure the various interests were able to bring to bear on legislators. Tariff laws after the Civil War period, especially, were not framed for the purpose of encouraging foreign trade in American vessels; they were framed for the pur-

pose of securing the domestic market for the protected interests.

Any tariff law that is merely for the purpose of protecting a home industry, regardless of how wise it may be from this standpoint, is of necessity an obstacle to the development of our foreign trade in that it places a restriction on our imports with which in the long run we must balance our exports.

It is likely that after the war such protective tariffs will be the subject of retaliation by foreign nations that prefer to operate on a "free-trade" basis.

While England was theoretically or nominally a free-trading nation and the acceptance of this conception of her position in international trade by other nations has been a factor in encouraging the purchase of British goods in world markets, yet she has found other methods of restricting her importations from other countries through the adoption of purchasing and selling practices that are favorable to home industries.

Whatever may be the decision regarding tariff laws, it is apparent that they must be integrated in the whole scheme of developing and carrying on foreign trade and must bear a relationship to the practices of other nations if they are to be helpful rather than harmful.

One of the most potent aids the British enjoy is the complete backing given to foreign trade by British commercial and financial organizations. In this field Americans are comparatively inexperienced. There is a multiplicity of organizations in the United States, both governmental and private, all working in a well-meaning way but none of them covering the field so completely as to be wholly effective and some of them at times working at cross-purposes.

There is in this country no government agency with the thoroughness of organization or the singleness of purpose of the British Board of Trade. There is no American organi-

zation among industrial and commercial interests that embraces so large a cross section of manufacturing and commercial interests and devotes its efforts so directly and singly to the expansion of foreign trade and shipping as does the Federation of British Industries.

Some American organizations, notably the National Foreign Trade Council, vigorously champion measures and policies that establish broad principles of equal opportunity and fair treatment for American trade and business in foreign countries, but there is no combination of American governmental and business interests that jointly work directly and harmoniously for the promotion of American trade and business abroad as do the British Board of Trade and the Federation of British Industries in the interest of British foreign trade.

We are capable of developing organizations comparable with those of the British, but the leadership of statesmen is necessary to convince American interests and political leaders of the necessity for unity in the promotion of foreign trade and of its importance to the future of this country as well as the rest of the world.

When we get all through canvassing the various forms of particular aids to foreign trade and shipping, we must recognize that any one of them can be effective only insofar as it is part of a well-organized scheme. The first essential is a broad policy decision on the part of the government and the American public that we intend permanently to engage in foreign trade on a larger scale and that we intend to build up our merchant marine commensurately. This decision must be so clean-cut and decisive as to inspire confidence and assure permanency to those who would engage in foreign trade.

Following such a broad decision and announcement of policy, we require on the one hand the coordination of all government departments and agencies having to do with

foreign trade and shipping and on the other hand the coordination of all industries and of American industry broadly in the interest of our foreign trade. The decisions of the Congress relative to the laws and regulations that should govern foreign trade must be of so free a character as to encourage it and must be accompanied by some indication or assurance that such laws are a permanent part of our national policy and will not be subject to repeal or change or destructive enforcement as a result of political whims or expediency.

The development of our foreign trade and shipping is a long-range undertaking and requires above all things a continuity and stability of policy and of laws governing it.

CHAPTER XI

EFFECTS OF EARNINGS OF THE UNITED STATES MERCHANT MARINE ON THE BALANCE OF PAYMENTS WITH OTHER NATIONS

In considering the situation of the American merchant marine after the war and the fact that we shall have apparently by far the largest merchant marine of any nation in the world, several suggestions have been made. One is that we should dispose of part of the merchant tonnage of the United States to certain other nations on the ground that they have had their merchant marines partly destroyed, and they will need all the revenue they can obtain from shipping in order to pay for necessary imports. It is felt that, if we let them carry our exports and imports to and from their countries, the money earned thereby would enable them to pay for a larger share of imports from the United States.

While every sympathy must be expressed for these nations and we should do everything possible to enable them to recover their economic well-being, it is very doubtful whether bestowal of a part of the American merchant marine on these nations would be much of a practical factor in the situation, or whether the money they would earn thereby would outweigh other disadvantages incurred in turning the carrying trade of our merchant marine over to them.

The most important country to consider in this connection is the United Kingdom. Before the war the British

mercantile marine was the largest in the world. During the war the United Kingdom has become a debtor nation instead of a creditor nation and will have lost a great deal of revenue derived from shipping. Likewise, there is a greater difference between the value of exports and imports in her trade with the United States than with any other of the larger nations.

With the exception of Canada, the greatest amount of our foreign trade is with the United Kingdom; the trade with Canada moves mostly by rail and scarcely enters into the shipping situation. What, therefore, would have been the effect on the balance of payments of Great Britain in 1938 if British vessels had carried all the freight and passenger traffic between Great Britain and the United States that was carried in American vessels?

In the year 1938, the last year before the shadow of coming war had distorted the ordinary statistics of trade, 17 per cent by value of United States exports amounting to $513,954,991 went to the United Kingdom, and 6 per cent of total imports into the United States amounting to $118,366,257 came from the United Kingdom. The United Kingdom, therefore, imported from the United States $395,588,734 worth of goods more than she exported to the United States.

During the year 1938 the total freight earnings of United States vessels were $66,787,000 for imports from overseas and $82,118,000 on United States exports for overseas; the total revenue received from passengers carried on United States vessels was $37,100,000.

Assuming that the earnings of American vessels engaged in carrying freight and passengers between the United States and Great Britain bear the same ratio to total earnings of American vessels that the trade between Great Britain and the United States bears to the total foreign trade of the United States, it would have meant that British

vessels would have received 6 per cent of the freight paid to American vessels on imports, 17 per cent of the freight paid to American vessels on exports, and 8 per cent of the total received by American vessels from passenger traffic. This would have amounted to a total revenue in 1938 of $20,935,280, which could have been applied to the difference due the United States of $395,588,734. In other words, if all the freight and passenger movement between the two countries that was carried by United States vessels had been carried in British vessels, it would have enabled them to pay about 5 per cent of the balance due on merchandise account alone.

Assuming that United States exports to the United Kingdom, which are imports of the United Kingdom, be carried in British-flag ships, and that exports from the United Kingdom, which are imports to the United States, be carried in American-flag ships as well as United States passengers to and from the United Kingdom, revenue, then, in 1938 would have been about 14 million dollars, which could be applied to the difference due to the United States. This is only about 3½ per cent of the balance due on the merchant account alone.

This $14,000,000 is only 0.2 per cent of the British foreign commerce, which amounted to $6,438,000,000 for 1938, and 0.06 per cent of the total British national income, which amounted to $21,587,000,000 for 1938.

It is true that the difference, in 1938, between the value of exports and imports in our trade with Great Britain was greater than usual. However, we normally export to that country from two to three times as much as we import, and the trend is toward a greater discrepancy as time goes on.

Of course it is rather absurd to assume that even if we had had no merchant marine, all the freight and passenger movement would have been carried in British vessels, as

other nations would have given a certain amount of competition; but it does illustrate the point that this factor is not of great importance in the situation. It would have been a little help, it is true, but the withdrawal of all competition from an American merchant marine might have opened the way for a rise in freight and passenger rates that would have made this an expensive luxury.

In the case of Norway, with which likewise great sympathy must be had, the reasoning simply does not apply, because during the 8 years from 1931 to 1938 inclusive United States exports to Norway amounted to $111,293,000, and during the same 8 years United States imports from Norway amounted to $137,120,000. This is not an argument against the desirability of restoring Norway's merchant marine, but it does show that it is not necessary to do so to enable Norway to pay for imports from the United States because, as a matter of fact, the balance was the other way around. We imported from Norway more than we exported to that country.

For obvious reasons, there is no use of going into the statistics of the Axis nations, Germany, Japan, and Italy, since we shall not likely consider transferring part of our merchant marine to these nations.

Lack of statistics with regard to Holland, Belgium, and France makes it impracticable to attempt to determine what part of American exports and imports would have been carried in the merchant vessels of those countries if we had had no merchant marine.

From the above considerations, however, it is clear that the amount of money that could be earned by diverting the carrying of passengers and freight from the United States merchant marine to the merchant marines of other nations is really so small as to be of scarcely any practical importance in helping other nations to buy more from the United States.

The value of a merchant marine to any nation lies not so much in the income that is derived from the operation of such a merchant marine as in the development of the foreign trade of that nation and the protection of that foreign trade against destruction and absorption by other nations.

CHAPTER XII

BUSINESS AND GOVERNMENT IN THE UNITED STATES

In the discussion of the British situation we called attention to the close, cordial relationship existing between business and Government in England. We have pointed out that one of the reasons for this lies in the fact that the political, commercial, and financial capitals of the British Empire are concentrated in the same city, *viz.*, London.

In contrast to the British situation, there is in the United States today an antagonism between government and business by reason of which each has a certain distrust of and contempt for the other.

The results that have been obtained in this war through wholehearted cooperation between government and business give a fair indication of the results that may be obtained when they work together and should be a lesson to the American people as to the course in this respect that should be followed in future and carried into times of peace if we are to cooperate or compete with the rest of the world and exert our full influence, whether in the field of international politics or business.

The establishment of the capital in Washington and the separation of the political capital from the commercial metropolis grew out of conditions existing in colonial days and in the early days of the Republic. Members of the executive branch of the government and representatives in Congress were drawn from among the farmers and business men, who gave their services to the government at very

great cost to their business and private industry and at great personal sacrifice.

Because of the slow means of transportation and communication it became desirable to locate the capital at a point as nearly central as possible to the territory of the United States, *i.e.*, to the states along the Atlantic seaboard. Washington, on the banks of the Potomac, was thus chosen partly because of consideration of accessibility. The large part that government must play in business and that business must play in government and the necessity for intimate cooperation between the two were not recognized or foreseen.

As the magnitude and scope of business broadened, it often felt itself hampered either by restrictions imposed by government or by the failure of men in office to see the legislative needs of an expanding business economy. Except as difficulties arose or as legislative matters affecting business were under consideration, business leaders were in New York, in Pittsburgh, in Boston, in San Francisco, in Chicago, or in other developing industrial and business centers of the country. Business men in the political capital were suspect, a situation that in itself created an atmosphere unfavorable to the reaching of wise, unbiased decisions and the establishment of policies that would apply to varied problems as they arose.

The rapid growth of big business and the ruthlessness of some of the robber barons during the era following the Civil War brought forth considerable public criticism. The public became alarmed at the possibility of abuses of power that might result from the development of monopolistic private interests, and our antitrust laws were the result. There is today a growing consciousness among business men of the necessity of keeping their house in order and of adopting self-regulatory practices. There is not and should not be any conflict betweeen the interests of business on

the one hand and of the government and the public on the other. Such antagonism as exists is all too well publicized and is frequently exaggerated in the public mind. Greater harmony and cooperation could be developed if the opportunity for contact between business and government leaders could be made more frequent and natural.

Business today suffers from the impossibility of normal, daily relations with government officials and legislators. In the separation of the government and the commercial capitals of the United States lies one of the basic reasons for the relationships that have grown up between business and government leaders.

If business and government both are to serve the best interests of the people of the United States, there must be common agreement as to what constitutes these best interests. Common agreement can be reached only by an intimate and continuous knowledge of the problems of business by government leaders and of the problems and the responsibilities of government by business leaders. Such intimate and continuous knowledge can come only from constant contact and association in the normal process of daily business and life. Such association is difficult and restrained with the government capital located in a city separated from the industrial-business-financial capitals of the country; the normal, day-by-day relationships that prevail in London between business and government cannot exist with government in Washington and business in New York and other cities unless some special avenues for intercourse between them are provided. Government and business cannot operate in distinct and separate areas, without knowledge of the problems and the aims of each other.

Eric Johnston, President of the United States Chamber of Commerce, one of the finest representatives of the achievements possible under a system of free enterprise,

has done much to bridge the gap between business and government leaders that he found existed in the early days of the New Deal administration. Of this period Mr. Johnston says,

> More anti-business legislation was written into the statute books in this period than in all the preceding years of American history. Not only was business in the doghouse, but it was barking with all its might. As always in such situations, the trouble thrives on its own excitements. Businessmen avoided the New Deal officials—except when summoned for inquisitorial investigations and royalist baitings. Officials avoided businessmen.
>
> During the first ten years of Mr. Roosevelt's occupancy of the White House it saw exceedingly few callers who could speak up for management and finance. Those who did call were too prone to speak softly and pull their punches—perhaps they had been convinced by the antibusiness orations that they were really criminals at heart. Many of the President's closest associates rarely overlooked an opportunity to throw the harpoons into private enterprise as a system and its individual exponents. The bad feeling was mutual, amounting to a feud. . . .
>
> The White House is only a stone's throw from the Chamber headquarters, but a decade of recriminations had widened that distance into what seemed to many on both sides an unbridgeable chasm. . . . [1]
>
> Areas of agreement, where the techniques of co-operation and mutual help hold sway, are not only possible but essential within the framework of a truly competitive system. There is a natural sphere of government regulation, which need not conflict with robust private enterprise. And in the relations between any two elements in the community healthy co-operation inside the pattern of competition is attainable and highly desirable.[2]

Healthy cooperation between business and government not only is "attainable and highly desirable"; it is indis-

[1] JOHNSTON, ERIC, *America Unlimited*, 1st ed., pp. 22 and 23. Copyright 1942–1944 by Doubleday, Doran and Company, Inc.

[2] *Ibid.*, p. 19.

pensable if the United States is to carry its responsibilities as a mature nation in the days that lie ahead.

Because of the predominant place that the United States occupies in the world economy of today, nations around the world are asking what the prospects are for postwar prosperity and full employment in the United States—questions of primary importance in the world trade of the postwar period. Certainly prosperity and full employment will not be a by-product of distrust and ill will between government and business.

As Paul G. Hoffman, president of the Studebaker Corporation and chairman of the Committee for Economic Development, says,

> The atmosphere itself must be favorable to the development of enterprise; to the rewarding of risktakers, because the willingness to take a chance with hope of gain is the mainspring of a free economy. Without risk there can be no jobs.
>
> Every policy of Government, business, labor and agriculture which bears importantly on production and employment should be challenged in the interest of sound post-war development. If changes are needed, changes should be made. . . . [1]

Changes will come; they must be based on mutual respect between business and government, on mutual knowledge and a mutual concern for the best interests of the nation. Business and government will be held responsible to the people of the United States if they fail to work out some avenue through which they jointly can promote the interests of this country and of the world; "a house divided against itself cannot stand. . . . "

Business and government have worked together during the war to create the most amazing production record the world ever has seen or dreamed of. Was this merely because

[1] How a Job Is Born, *The New York Times Magazine*, Aug. 20, 1944, p. 41.

the enemy was knocking at the gates? Do we need a war to produce national unity? We face today another enemy in the menace of unemployment, and, if we are to win the war against it, we must bury our prejudices and antagonisms and develop that unity of spirit and purpose that in every crisis in our history has contributed to our greatness.

CHAPTER XIII

POSTWAR PLANNING IN THE UNITED STATES

Postwar planning occupied the minds of individuals and organizations in this and other countries during the war period. As indications appeared that the war was nearing its end, plans and blueprints for the postwar world multiplied and sprang from every source.

To one making comparisons of the United States and Great Britain in the field of world commerce and shipping, there is one fact that stands out above others in relation to these postwar plans; in the United States there are literally scores of plans, each one representing influential individuals, firms, associations, and organizations, as well as many governmental groups, all with powerful backing and the belief that their particular plan is the best; in Great Britain, where there is even more concern over postwar problems, the plans and suggestions have been coordinated and unified, until there is, practically speaking, one voice on these matters.[1] In this lies the strength of Great Britain and the weakness of the United States.

A glance at some of the American postwar plans reveals important ones in process of formation or already projected by the United States Chamber of Commerce, the National Association of Manufacturers, the National Foreign Trade Council, the National Federation of American Shipping, the American Federation of Labor, the Congress of Industrial Organizations, the American Merchant Marine Insti-

[1] The promises of the Conservatives had included better housing, a higher standard of living, full employment, etc. The Laborites promise these same things and doubtless will be more aggressive in working to attain them.

tute, the China-American Council of Commerce and Industry, the Commerce and Industry Association of New York, the Foreign Trade Association of the San Francisco Chamber of Commerce, the Committee on International Economic Policy, and all the various industrial organizations such as the National Electrical Manufacturers Association, the American Trade Associations Executives, and others. But these are only the private or nongovernmental organizations engaged in making plans; practically every government department and agency has a bureau or commission or board that is planning for its own special interest, be that agriculture, commerce, resources, tariffs, finance, or a geographical region such as Latin America, Mexico, or China. And these vary not only with the plans proposed by nongovernmental organizations but among themselves.

There is much of value in having so thorough an exploration of postwar possibilities, but there is grave weakness in having no coordination among the plans and groups, no emergence of a plan on which all can unite and work effectively.

In considering any plan for postwar economy in the United States, we must recognize that for a number of years the government has been taking the lead in such planning as has been done. The opportunity for business to participate in this planning or to have its voice heard has not been so great as business itself desires, and the full cooperation of business in a broad sense thus has not been obtained. We proceed upon the assumption that it is desirable in any postwar planning that we shall have the benefit of business as well as government leadership.

In any American effort toward economic planning, initial steps should be taken to see that business is organized and coordinated in such a manner as to coordinate business thought and ideas. The desires and recommendations of business should emanate from such an authoritative source

and should be transmitted through such a channel as to create public confidence and avoid suspicion and mistrust. Business must provide its own means for filtering its proposals and tempering its desires to the public good.

Our immediate interest is in postwar planning as related to foreign trade and shipping; we shall not seek to deal with problems incidental to our domestic economy.

In the case of Great Britain, foreign trade and shipping is such an important factor in her national economy that her domestic economy must be subordinated to her foreign policy.

In America, our policy relative to foreign trade and shipping must stand on its own without calling upon our domestic economy for any sacrifices.

We have need for a national organization that shall act to coordinate the consideration and action of all the different industrial and business organizations and associations in matters concerning foreign trade. The function of such an organization in the beginning should be advisory; but if we follow the British pattern, it will ultimately be called upon to develop an operating organization in the foreign field as the Federation of British Industries has done, in order that organized industry itself may participate actively in promoting foreign business and developing foreign trade and markets for American goods.

In order to develop plans for such an organization, it is recommended that an organizing committee be created that will have representatives from the various organizations having to do with foreign trade, including among others the following: the National Foreign Trade Council, the Chamber of Commerce of the United States, the National Association of Manufacturers, the Bankers Association for Foreign Trade, the National Council of American Importers, and the Association of Marine Underwriters of the United States. It is suggested that each of these organiza-

tions designate one member and an alternate to sit upon this organizing committee.

The purpose of the organizing committee should be to develop plans and recommendations for permanently coordinating the work of all the various business organizations and associations interested in foreign trade and shipping. Such permanent organization would be so set up as to reflect the views of the various organizations composing it and to provide an authoritative source and channel for transmitting the views and recommendations of business to the Congress and to the government in its various executive branches, departments, and agencies.

The organizing committee should define the character of the permanent organization to be formed and the scope of its work and should recommend the manner in which it should be maintained and the source of its revenue.

It would seem appropriate that the National Foreign Trade Council should take the lead in forming such an organizing committee.

On the government side, in order to develop a single government agency that shall have the primary responsibility for developing and administering our foreign trade and shipping, it is necessary that there be in this field a coordination of the work of the State Department, the Department of Commerce, the Maritime Commission, the Department of Agriculture, the Foreign Economic Administration, and the Export-Import Bank. Here again, it is recommended that a temporary organization be set up to develop plans and recommendations for the permanent government organization that shall be charged with the responsibility for promoting, developing, and administering our foreign trade, the purpose being ultimately to provide for one authoritative government organization that shall clear all matters relating to foreign trade and shipping.

With a coordinated government setup and a coordinated

business setup, we should be able to direct the energies of government and of business toward the development of our foreign trade in such manner as to enable us to compete with other great trading nations.[1]

It should be borne in mind that if we consider Britain and Russia as the two great trading nations of the future, they will both be handling their foreign trade and shipping on a totalitarian basis. We shall need a united American front in order to develop our appropriate place in the international field.

[1] We have not undertaken to develop the part that the consumer and labor should play in the development of our foreign trade and shipping. This is an appropriate matter for the proposed government committee and business committee to consider.

CHAPTER XIV

SUMMARY OF THE UNITED STATES' POSITION

The story of government aids to the foreign trade and shipping of the United States can be quickly and simply told. During the early period of our history and until about 1840, American shipping received indirect aids through favorable laws and government policies more or less on the pattern of British practices. Since the 1840's we have adhered rather strictly to direct subsidy in its narrower sense of pecuniary aid, and all those indirect aids present in the British system have been absent in the American.

The following tells quite simply the character of such aids as have been given:

American Aids to Merchant Marine

1789–1828	Congress passed no fewer than 50 tariff or other laws intended directly or indirectly to protect American shipbuilding and shipowning—patterned on Navigation Acts of England
1847–	Ocean-mail Contract instituted; dropped 1857; reinstituted from time to time, finally dropped 1937
1848–	A low-interest government loan was made to the Collins Line for ship construction
1920–	Government loans were authorized to shipping companies for construction and for reconversion of merchant vessels
1936 Act[1]	Operating-differential subsidy
	Construction-differential subsidy
	Countervailing subsidy

Direct subsidies have been paid to American shipping for about 100 years; if the total payment is averaged over

[1] In operation.

the entire period, it amounts to about 4 million dollars annually.

Under the 1936 act, provision is made for an operating-differential subsidy, a construction-differential subsidy, and a countervailing subsidy. The operating-differential subsidy is intended to equalize the cost of operating American-flag ships as against foreign-flag ships, and the construction-differential subsidy is intended to equalize the cost of construction in this country as compared with construction costs in foreign countries having a lower wage scale.

The countervailing subsidy is intended to counteract the effect of any discriminatory action taken by any foreign country against our shipping. No use has been made of this countervailing subsidy as yet.

In practice all vessels engaged in foreign trade do not receive a subsidy. Under the 1936 act it is reasonable to assume that subsidy is received by about 50 per cent of our shipping engaged in foreign trade.

A reasonable estimate of the subsidy to be paid under this act on a postwar fleet of 15 million dead-weight tons is about 50 million dollars per annum. If we assume a subsidy of 50 million dollars per annum and a national income of 100 billion dollars, then the subsidy is only 0.05 per cent of our national income; with an estimated postwar foreign trade of 15 billion dollars, a subsidy of 50 million dollars per annum is only 0.33 per cent of such foreign trade.

It is apparent that subsidy is such a small part of our national income and of our foreign trade as to be an insignificant factor in the determination of policy. There is a tendency to exaggerate in the public mind the magnitude of the subsidy required for the maintenance of an adequate fleet, and this exaggeration leads to an antagonism toward the idea of subsidy that should be eliminated through informed public opinion.

Ship operators generally appreciate the desirability of eliminating subsidies along with the governmental controls and restraints that accompany them and further recognize the stimulus to private initiative that results from the elimination of subsidies. Subsidies may be regarded to some extent as a necessary temporary evil; their final elimination must depend upon the development of those forces in the conduct of our foreign trade that will give such national support to the operation of shipping through the coordination of government and business as will produce benefits that far outweigh those of a measured subsidy.

If we can give to foreign trade and shipping in this country the kind of broad support and aid which it enjoys in Great Britain, we shall have no need of subsidies in the narrow sense of our understanding.

In order to relieve the confusion and antagonism in the public mind that grows out of the understanding that we are extending subsidies out of the national treasury to a favored industry, *viz.*, shipping, it is desirable that we relate the conception of subsidies and its application in some form to foreign trade rather than to shipping and bear in mind that foreign trade is a constructive contribution to the welfare of all industries in America; a subsidy extended to foreign trade is by such reasoning enjoyed by industry generally, since we here conceive foreign trade to be that medium by which we shall raise our national income to prosperity levels.

In looking forward to the period after the war and in contemplating the extent and character of the competition that we shall have to meet, we must determine whether we are going to limit our procedures and practices to the American pattern of the past or whether we are going to recognize that foreign trade and shipping cannot be conducted under the same regulations and restraints as domestic commerce, and that we must have a certain

freedom and flexibility in our laws and procedures as related to foreign trade and shipping based somewhat upon the practices of other nations and in order to meet their competition.

Aside from this question of subsidies and aids, we must consider those broader means of support that are derived from an informed public opinion, a sympathetic public attitude of mind, and the organization of government and industry along lines favorable to the successful conduct of our foreign trade.

To begin with, we are not foreign-trade-minded and have not been since 1860. We have been absorbed since that time in our domestic economy. We invested our own capital and borrowed heavily from abroad to support our industrial development; we became a debtor nation. In time we sold our industrial output to foreign nations, paid our debts, and became a creditor nation.

Political and business careers in this country have been built around domestic rather than international economy.

Certain elements in our domestic economy are by nature in conflict with essential elements in the development of international economy.

Whereas England imports more than she exports, we shall have difficulty in finding imports to balance our exports without coming into conflict with the interests of domestic producers.

Our domestic economy has been built around the maintenance of competition.

We have stringent antitrust laws.

Large corporations and monopolies, federations of industry, trade associations, and international cartels are opposed to public sentiment and are subject to political suspicion and attack.

As yet no distinction exists as between the organization and practices that are desirable and essential for the

encouragement of foreign trade and the organization and practices that conform to our American plan governing our domestic economy. To compete successfully with other nations in the foreign field we must have industrial, commercial, and financial units of organization that are comparable in size, position, influence, prestige, and political backing to those of other nations and that will respond to the demands of public interest and international competition.

The development of such organizations devoted to the extension of our foreign trade and the coordination of American industry and finance in the field of foreign trade to a degree comparable with the British setup is not possible under present American laws or under our present American political philosophy.

The urge to change this condition must spring from an informed public opinion.

We have nothing exactly corresponding to the Federation of British Industries with its widespread and comprehensive membership, with its representatives abroad, with its very active agents in foreign countries, and with its tremendous influence upon British legislation and political thought.

Without a change in public opinion and public policy, such an organization brought together in America as a supplementary arm of government would subject its proponents and administrators to political attack and denunciation.

If we are to have an organization abroad devoted to the extension of American foreign trade and an organization in this country able and powerful enough to coordinate our domestic and international economy in the interests of foreign trade, capable of bringing about coordination between business and industry on the one hand and the government on the other, it is probable that such an organi-

zation will require to be constructed with governmental blessing that will assure public approval.

Whether this is brought about by a coordination of efforts of business and industry or whether it is brought about by the development of government interest, activity, and leadership, its success depends upon sympathetic public opinion behind the idea of constructive cooperation between business and government in foreign trade.

This means that the barriers that now exist must be broken down.

Political careers can no longer be built upon attacks on big business and industry and on a prohibition against business and industry exercising influence upon political thought and legislation. The cooperation and coordination between government and business as it exists in England would be considered an outlawed lobby in this country, in complete political and public disfavor.

As the control of government over business is extended and increased, the restraint necessary to prevent the destruction of private initiative must come through the development of a strong, coordinated organization derived from industry itself.

We are handicapped in this country by the fact that the political capital is separated from the chief commercial and financial metropolis.

This is no mere physical separation; it is an intellectual and psychological separation as well.

The business man who visits Washington too frequently is politically suspect.

Business interests that seek legislation favorable to their objectives become lobbyists in danger of public and political ostracism.

If business leaders, political leaders, and government officers could be brought into daily contact, into intimate social and business association, it would greatly promote

that unity of thought and purpose between the business and political world so essential to the development of our foreign political and business strength.

The government organization handling our foreign trade was formerly in the Department of Commerce. It is now in the Department of State. It has been placed in the Department of State upon the theory that the carrying on of foreign trade is so closely associated with our diplomatic and political relationship with foreign countries and with our foreign policy as to make it necessary to subordinate commercial considerations to political.

It is not our purpose to argue for or against the allocation of our foreign-trade controls in one government department or another.

In whatever government department it may lie, the important thing is that there shall be a competent and trained staff for handling it, together with capable leadership.

The Department of State has recently issued a memorandum setting forth the functions and responsibilities of the Department's Shipping Division, which gives a clear indication of the predominantly important influence that the State Department will exercise over our postwar shipping and foreign-trade activities.

The memorandum is designated as Departmental Order No. 129i; this order invests in the shipping division of the Department the responsibility for the initiation, formulation, and coordination of policy and action.

The order deals with the following activities:

1. Relationship between private and governmental shipping.

2. Disposal of tonnage to foreign nations—establishment of trade routes.

3. Effective ocean freight rates, marine insurance rates, war-risk insurance rates on foreign trade.

4. Economic, commercial, and political aspects of international shipping.

5. Maritime services and laws of other countries as affecting foreign policy of the United States.

6. Foreign-policy aspects of subsidies and other government aids.

7. International conferences, treaties, and agreements governing shipping and shipbuilding.

8. Revision of navigation laws.

9. International conferences concerning seamen.

10. Relationship to foreign policy of measures and standards that affect shipping and trade.

The above memorandum is a fair measure of the scope of the work that must be undertaken by the government agency that is charged with the control of our foreign trade and shipping. There is involved not only the organization necessary for operations within the Department itself, but also the coordination of the work of the Department of State in the foreign-trade and shipping field with the work and activity of other governmental departments interested and involved, with particular reference to the Department of Commerce, the Department of Agriculture, the Maritime Commission, the Foreign Economic Administration, and the Export-Import Bank.

It is likewise important that this organization be set up in such a manner and with such leadership as will enable it to develop cooperation with the industrial forces and elements necessary to the creation and development of our foreign trade; for this purpose it is essential that industry itself be organized in such a way as to provide an authoritative channel and voice for the expression of industry's views and recommendations.

Only through the organization of industry itself can we be assured that the private initiative and energy that are responsible for creating the most advanced and progressive

industrial organization in the world shall be carried into the creation and development of our foreign trade and the solution of postwar problems.

It is to be hoped that whatever governmental organization is created, there will be a recognition of the need for keeping alive and making effective the forces of private initiative and that the cooperation between government and industry as related to our foreign trade will be of such an intimate and constructive character as to ensure that America shall marshal her entire strength in conducting her foreign-trade activities.

President Roosevelt's remarks in the course of the campaign gave encouragement to the hope that policies of this government would be directed in the channels of private initiative and enterprise. In his Chicago address of Oct. 28, 1944, he said,

> I believe in free enterprise—and always have.
>
> I believe in the profit system—and always have.
>
> I believe that private enterprise can give full employment to our people.
>
> I believe in exceptional rewards for innovation, skill and risk-bearing by business.
>
> We shall lift production and price control as soon as they are no longer needed, encouraging private business to produce more of the things to which we're accustomed and also thousands of new things, in ever-increasing value, under conditions of free and open competition.

The following, from the report of the Private Enterprise Section of the International Business Conference (Rye Conference, Nov., 1944), is an eloquent defense of the institution of private enterprise:

> The deliberations of the Private Enterprise Section were based upon the premise that Private Enterprise is the right of the citizen, as an individual, or jointly with others, to set up in

business for himself—to venture his personal efforts and capital; to own, use and risk the mechanical and other means of production. The reward of success is not only profit, but increased employment and prosperity for all. The penalty of failure is not only the loss of what has been ventured but also the loss of employment with consequent injury to the general economy. Nothing else than this can provide the incentive to that initiative and efficiency upon which economic progress is built. The processes of exploration, research, invention and experiment, are all characteristic of Free Private Enterprise.

The concensus of opinion of the Section is that the Private Enterprise system is the best known means of bringing about effective world prosperity and employment, of securing and maintaining world peace, thereby assuring a higher standard of living for all peoples. Accordingly, it is urged that governments recognize and adhere to the principles of Private Enterprise, which are—

1. Equality of opportunity.
2. Equality under law.
3. Reward for initiative.
4. Privilege for thrift.
5. A tax structure that encourages incentive and risk.
6. Restriction of monopoly.
7. Abstinence of government from competition with private business.
8. Freedom of production and sale.
9. Equitable distribution of profits with consumers' and labor's interest safeguarded to the end that more and more things may be supplied to more and more people, thereby producing maximum employment at the highest possible level of wages.
10. Government—under law—that will provide encouragement to business through provision of an economic atmosphere in accord with the above principles.

It is recognized, however, that in some countries state control of certain enterprises has long existed and can probably continue without harmful effect on their own national economy, but that extension of such control into new fields is neither desirable nor necessary.

The post-war policies of the governments of various countries, especially those that are under-developed or have been occupied by the Axis powers, may be influenced in large measure by their own economic necessity. The Section realizes that under times of extraordinary emergency, it may in all wisdom be proper to control the free play of Private Enterprise and initiative. Such emergency suspension being in violation of principles must, however, be for a specific purpose and of limited duration and should never be permitted to annul or be substituted for the basic requirements of a continuing system of Private Enterprise.

To restore Private Enterprise to its proper place in national economies and to assure its greatest possible development and expansion, the delegates strongly urge continuance of the cordial international relations which have characterized this conference.

As a means to this end they unanimously suggest that an international organization actively undertake measures designed to bring about the restoration and the development and expansion of Private Enterprise.

The Section agrees that in view of its existing world-wide affiliations, the International Chamber of Commerce is a suitable nucleus of such an organization which could undertake these measures, and its status should be formally recognized by the Governments of all nations. However, it is strongly recommended that because of the very important position which it occupies in the Western Hemisphere, the Permanent Council of American Associations of Commerce and Production should be an active participant in the program and that these two organizations work out effective means of collaboration.

It is the recommendation of the Private Enterprise Section that steps be taken immediately to put the aforementioned proposal into action as it is believed that such a program would increase international trade and bring about better and closer international economic relations.

Addendum to Private Enterprise Section Report Presented by the U.S. Delegation and Added by Vote of the Plenary Session:

The American delegation is wholeheartedly committed to private enterprise in preference to government enterprise; to free enterprise in preference to controlled enterprise; and to com-

petitive enterprise in preference to monopolistic enterprise. This is because the American people proudly cherish in their hearts the traditions of self reliance, liberty and equal opportunity which are involved in those preferences and which have been the fundamentals of their political and economic system.

We think this is best for us as a nation. We frankly acknowledge that other nations may follow other courses than the one we take. Our course, as we see it, is to produce freely and trade among our various communities as we always have, as private enterprisers, and in that capacity and in that spirit to trade with other peoples in other lands in so far as may be, without handicap or prejudice or discrimination. To the extent that other nation's economic policies differ from our own, difficulties may arise; to the solution of these difficulties we pledge our earnest attention and cooperation; but we cannot conscientiously part with our birthright, in so far as concerns our own participation in international trade.

We recognize that in our own short history, the principles on which our American concepts are based have been broadly applied to accommodate the expansion of government functions and controls. The public attitude toward these compromises has not been static—many divergences from these principles have been urged and accepted as clearly for the nation's good, or as emergency measures. Yet the fact is clear that in America today enterprise is more solidly in private hands, that here it is freer, and that here it is more truly competitive, than in many other lands. And to this, we believe, is due the superb vitality which has enabled our nation to perform the American miracle of production over the years.

The basis of private enterprise is the right of the citizen, as an individual, or jointly with others, to set up in business for himself—to venture his personal efforts and capital; to own, use and risk the mechanical means of production. The reward of success is profit, and the penalty of failure is the loss of what has been ventured. Nothing else than this can provide the incentive to that initiative and efficiency upon which economic progress is built. The processes of exploration, research, invention and experiment, are all characteristic of free private enterprise.

And without such economic freedom, without substantial freedom of the individual to seek his living where he can find it, and to venture his means where profit seems likely, and to be obliged to no man for this—without these it is pure delusion to imagine that political freedom, even if it exists, can long endure. As Benjamin Franklin, said, as long ago as 1759, "They that can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety."

We hold, that for us, no further ground should be yielded to state activities or controls, unless the ends to be served are clearly in the interests of all, and reconcilable with our basic concepts.

We do not, therefore, accept the necessity of government devoting its resources to or engaging in business enterprise; the resources of government are but the resources of the citizens, and in this area its activity is inherently competitive with theirs.

We believe that controls which are adopted as emergency measures, cannot be allowed to be exercised longer than the emergency itself, without serious damage to economic health.

Government cannot create wealth apart from the wealth of the governed, or provide for the needs of all its citizens as well as these citizens can themselves provide. We believe that government can best serve by providing a maximum of opportunity for the individual. We believe moreover that this is wholly consistent with government providing some reasonable level of individual security. But in the last analysis a reliable basis of security for the individual, commensurate with our American standard of living, can be provided only by the individual enterprise, energy, and productivity of the people themselves.

The above is perhaps the most authoritative formulation of the philosophy of free enterprise that has been prepared in that it not only represents the best thinking of the Section on Free Enterprise of the International Business Conference, but it is the concensus of opinion of representative business men from 52 nations in attendance at the conference.

The sentiment in favor of the policy of free enterprise can well be said to be universal throughout the business world; any adoption of a totalitarian planned economy by any nation must be regarded merely as an expedient to provide a temporary solution to pressing problems.

It should not be overlooked that those countries that have adopted totalitarian planned economies during the early stages of revolutionary changes have in the latter stages shown a tendency to revert to the policy and philosophy of free enterprise.

Free enterprise is the heritage of free men without which freedom cannot long exist.

If we attempt to maintain the American wage level and scale of living without the incentive of private and individualistic initiative and reward and substitute for it the listless energies of a planned national economy that denies to men their freedom, we shall fail ignominiously. Our strength lies in the maintenance of our institutions and in our courage to preserve them.

The United States occupies today the position in world trade that Great Britain occupied 50 years ago. She is the greatest industrial nation in the world and the greatest creditor nation; the latter fact places her in the position of being potentially the greatest political force.

Not only is the foreign trade of the United States dependent upon her conduct in this field, but the foreign trade of all nations and their ability freely to trade with each other depend in large measure on the use that we make of our position, prestige, influence, and power and the manner in which we make available to other nations the resources of this country for their rehabilitation.

Whether we think in terms of gold, credit, raw materials, manufactured products, or shipping, our position is, to say the least, one of great influence and power.

However, when England found herself in a similar posi-

tion 50 years ago, she possessed certain qualities and characteristics that we lack. She had imperialistic ambitions, at least in the economic field. She had experience in the field of foreign commerce, and she was organized politically, industrially, financially, and psychologically to assume the role of world leader in the field of foreign trade and shipping.

If we desire to develop the full strength and significance of our position of world leadership or to share it with others, we shall have need to organize ourselves for the undertaking.

CHAPTER XV
SUMMATION

In all of the many adjustments and understandings that must be arrived at among nations incident to the termination of the war, and in the steps that must be taken to ensure the peace of the world, none is so important as the trade among nations and the operation of the ships that carry the trade.

International trade is that universal current that flows from one nation to another and serves to establish the level of world prosperity that controls the well-being of all the peoples of the earth.

The peace of the world in the future is dependent in large measure upon the freedom with which nations trade with each other. The whole world will be struggling on the one hand to repair the ravages of war and on the other to create such a balance of living conditions and opportunities among nations and peoples as will remove the denial of these things to any one nation from among the causes of war. Inequalities among nations can be removed and a balance of living conditions developed only through international trade. Each nation must cultivate the taste and need for the products of other nations to whom they expect to sell, to the end that there shall be a balance between exports and imports, a freer interchange of goods and services among nations, and a greatly stimulated foreign commerce for all nations.

The problem that will confront every nation after the war is that of economic security. Economic security must comprehend not only the right to exist but the opportunity

to progress. No nation can submit to a static economy. Each must contemplate progression in the direction of higher standards of living and greater social security.

In the world of today no nation is sufficient unto itself. Each must seek to avail itself of those complementary factors in the economy of other nations that will supplement its own domestic economy and provide for it a fuller national life.

The opportunity for freer trade among nations in the future must be created and maintained by those great nations who find themselves in a position of leadership today and who will of necessity determine the character of the peace and the relationship that shall exist among nations in the future.

It is obvious that these great powers must give consideration to the welfare and needs of lesser nations, to the development of opportunity and peaceful security for those nations who find the development of a modern industrial economy essential to their future existence and social development.

Britain, Russia, and the United States, in association with their Allies, must determine that distribution of sea power among nations that will best serve the policing of the world and the peaceful servicing of world trade. For these purposes we are concerned not only with the measure of the sea power of each nation but also with the manner of its operation.

Those nations whose policies and political philosophies are nonaggressive can be expected to operate their merchant fleets in free competition under most favored terms; those nations whose inclinations are aggressive can expect to have some restraint placed upon them to protect the world against their destructive policies and subversive activities. If it can be assured that the spirit of aggression will someday disappear and that all nations can operate free of

restraint without jeopardy to the peace of the world, then the ultimate determination of the size of merchant fleets is likely to result from international competition in a free market rather than from restrictions imposed by one group of nations on another.

Britain and the United States now control the sea power of the world. They have already declared their intention to administer this power in the interest of free trade among nations. The Atlantic Charter sets forth the aims and purposes of Great Britain and the United States in this respect in these terms:

> They will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity;
>
> They desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic adjustment and social security.

The broader opportunities contemplated in this declaration must of necessity be limited by considerations of world security, and the freedom given to any one nation must be subject to some limitation and restraint until it can be assured that its policies in the future are to be directed toward world security and are in the interest of the freedom of world trade that is contemplated in the declaration.

While it is declared that each nation shall have freedom of opportunity, yet it will inevitably result as a practical matter that no nation will occupy any position in world trade other than that to which its initiative, energy, and ability entitle it. It may be assumed, therefore, that Britain will continue to put forth her best efforts and to direct her

whole national energies toward the maintenance and extension of British trade and commerce and toward the expansion and improvement of the British mercantile marine. Britain already has declared her intention of expanding her foreign commerce by 50 per cent. She has indicated that she is prepared to extend subsidies to both shipbuilding and ship operation. She has indicated also a willingness to sell in world markets on such a basis as to meet competition; this may mean world prices that bear no relationship to the cost of production or to domestic prices.

While it may be assumed that Britain will do nothing in the restraint of trade of other nations, it must be assumed also with equal assurance that she will do everything to promote and develop her own trade.

Britain today is admitting frankly not only to herself but to the rest of the world the distress of her economic and commercial position. She is seeking the help of the United States to reestablish her credit position in sufficient degree to permit her to import those commodities that she requires in order to start up her peacetime industries and create those products essential to her export trade and the reestablishment of her income derived from other countries. The argument, presented in a plausible British manner, is advanced that a prosperous England carrying on a large share of world trade and operating the greatest fleet of merchant ships in the world is essential to the economic welfare and the political stability of the world.

Britain already has declared her intention of adopting a totalitarian economy. Since England's national economy always has been based upon considerations of foreign trade, we can assume that her decision to develop totalitarian controls is a decision in the interest of her foreign trade and for its protection in the face of the very lively competition she foresees.

We can be assured, therefore, that the entire force of Government and of a nationally controlled economy will be directed toward the support of British foreign trade and shipping, and the assistance that may have been given to British interests throughout the world in the past will now be an all-out assistance on a national scale.

Russia likewise has declared her intention of expanding and developing her world trade and shipping. With her great natural resources and with the rapid expansion and development of her industries stimulated by war, we must assume that Russia will become in a very short time an important factor in the field of world trade and shipping.

Obviously, Russia will carry on her trade on a totalitarian basis and under a completely controlled government economy. Her decisions and operations will be determined by policies of state, and her merchant marine will be merely an instrument of state policies. She will be entirely capable of developing in any world market the position that she desires except insofar as she may be restrained by international agreements or fear of retaliatory measures.

China may one day be a great trading nation, but her greatest immediate contribution to world trade lies in the development of her river, harbor, and coastwise traffic through which she will bring her produce to the sea. The development of her ocean trade in her own name must be left to future years.

This is no time for America to be smug or content in matters that affect world trade and shipping. We must take account of our own apathy in these matters and of the capacity of other nations driven by necessity more urgent than our own to take from us those markets to which our favored position might reasonably entitle us.

The United States faces the problem of her future world trade with two great assets, *viz.:* she is the greatest industrial nation in the world and has the greatest productive

capacity; she is the greatest creditor nation in the world and is in a position to control world credits.

The United States, on the other hand, has the highest wage scale in the world, and this places a limitation upon the sale of certain American-made products in world markets. The bulk of her world trade must be in those articles that can be made in such quantities as to enjoy the benefits and economies resulting from mass production.

By reason of the fact that the economy of the United States is supported largely by domestic sources of supply and is little dependent upon foreign sources, she is limited in the volume of imports that she requires; and to the extent that it is economically necessary to balance exports with imports, this places a limitation upon her over-all foreign trade.

The development of exports on a scale that will raise the national income of the United States to prosperity levels cannot be accomplished entirely by a balance of imports but must be brought about in large measure by the development of credits to foreign nations and by American investments in foreign countries and foreign undertakings.

These credits and investments will require approval, supervision, and protection by the government.

With a reasonable measure of security extended by the government, private industry in America can and will finance its undertakings in the foreign field on a private basis.

The function of government in this respect should be not directly to finance foreign trade but to extend such measure of credit to private business as will make the conduct of foreign trade a reasonable commercial risk. Just as the government has functioned in a protective credit capacity in the carrying on of war contracts, so it must function in the same manner in varying degree in connection with foreign trade.

American interests and investors must be prepared to obtain payments for their sales through a participation in the income derived from the operation or use of those things that we sell.

It is to be hoped that we shall not lose heart in facing a totalitarian economic world and that we shall in no measure abandon those principles that are responsible for the development of American industry to its position of preeminent leadership in the world.

The pioneer spirit that made possible the settling of this country and the extension of culture westward is still alive in the American people.

We have met the demands of totalitarian war. We have supplied not only our needs but also the needs of our Allies; we have financed not only our own production and efforts but also part of the production and efforts of our Allies. We have done these things and still adhered to our democratic institutions.

We have maintained and retained the initiative, force, and energy of private enterprise. We still have our liberties, both political and economic. We still have good will toward other nations and other peoples. Just as we have lent our energies and wealth to the support of what we believed to be a righteous cause, so are we prepared to lend our wealth and energies to the reconstruction of the world and the preservation of world peace.

If we had Britain's experience, organization, and know-how, we could probably undertake the job of world rehabilitation on our own and do it singlehanded, but, lacking these things, we need a partner in the undertaking. This suggests the necessity for constructive collaboration between the United States and the British Empire in the postwar period.

We must appreciate the economic necessity of increasing our own foreign trade and of developing the strength of our

political position in the world as a protection to the investments that we shall be required to make in foreign credits and foreign undertakings. Sympathy with the position of other nations or an appreciation of their need for our help should not blind us to the necessity of looking out for our own interests and of assuring that the benefits and rewards that accrue to us shall be entirely commensurate with the contribution that we make to reconstruction, rehabilitation, the creation of freer trade among nations, and the development of a greater world prosperity and stability. Neither sympathy nor idealism should obscure the necessity of guarding and improving our own economic security so essential to the protection of the world against economic chaos in this period of reconstruction. Whatever we do must be done in a thoroughly practical way and on the basis of sound business. We must maintain the strength and integrity of our national wealth whether it be measured in gold, in credit, in resources, in initiative, or in energy. To abandon or neglect in any degree our own interests and so weaken our own structure would be a disservice, not only to ourselves, but to all other nations and to mankind.

We have no time or need for economic panaceas. We must adhere tenaciously to those institutions that are the foundations upon which our national strength has been built. Our effort need be totalitarian only in the sense that we need to direct the total efforts of an inspired individualism among free men to the attainment of a national objective.

APPENDIX A

BRITISH SHIPPING SUBSIDIES

Details of the Contracts with the Three First Companies to Receive Such Subsidies[1]

Peninsular and Oriental Steam Navigation Company

In 1834 a select committee of the House of Commons inquired into the means of providing communication by steamer with India, and resolved in their report dated July 14, 1834, that the establishment of regular and expeditious communication by means of steam vessels was an object of great importance, both to Great Britain and to India. . . .

By the terms of the 1837 contract,

The Admiralty required the contractor to fit each vessel with armament consisting of 6, 9, or 12 pound guns, 20 muskets, 20 pistols, 20 swords, and 30 rounds of powder and ball, and stipulated that on each ship a naval officer should be carried . . .

Admiralty requirements were that the ships should be able to carry and fire at least four guns of the largest calibre then used in the navy and that the Admiralty could purchase or charter the vessels at mutually agreed rates. . . .

Under the 1837 contract, services were from Falmouth to Portugal and Gibraltar.

A new contract in 1840 specified service to Alexandria, " . . . vessels to make the run from Falmouth to Gibraltar in 120 hours, from Gibraltar to Malta in 116 hours, and

[1] These data are compiled and quotations taken from Saugstad, *Shipping and Shipbuilding Subsidies*, pp. 193–263.

from Malta to Alexandria in 96 hours." Thus we have the requirement of speed added to that of armament or ability to mount guns.

By successive contracts the services were extended to Calcutta (1842), to Hong Kong (1844), and to Sydney (1853); by 1870 Shanghai and Yokohama had been added to the routes.

The contracts with the "P & O" called for an annual payment of £29,600 for the Falmouth-Gibraltar service; the 1844 contract stipulated £115,000 for Suez to Calcutta and £45,000 for Calcutta to Hong Kong service.

Terms of subsequent contracts varied slightly, but the 1866 contract called for a payment of £396,000 for the Eastern services, a total of $1,927,000; the net cost was £160,000, or $779,000.

The 1867 contract rates for the Eastern services remained about the same (£400,000), but it is interesting to note that the Government guaranteed an income of 6 per cent on the capital of £2,670,000; one-fourth of any profit over 8 per cent on capital was to be returned to the Government. If the income fell below 6 per cent, the Government would make up the deficit, except that payments on this account were not to exceed £100,000 in any one year.

By a subsequent contract, completed in 1870, the "P & O" undertook all services on the seven routes of the Far East. By reason of difficulties under the 1867 contract in determining the amount of payment, a fixed payment basis was established for the amount of £450,000 ($2,190,000). Payments under later contracts varied from the above amount to about £300,000 under the 1907 contract; in the early 1930's the amounts were approximately £300,000. Requirements as to speed gradually were stepped up during the entire period, from the original 8½ knots of 1837.

During this entire time the "P & O" had no really

serious competitor for the Far Eastern services; at one period the Oriental Steam Navigation Company divided the Australian services with the "P & O"—the Oriental Steam Navigation Company has subsequently been absorbed by the older company.

The Far Eastern mail contracts have always operated at a loss, but their importance for Empire has compensated.

Cunard Steamship Company

From the original contract in 1840 until 1867 the Cunard Company operated under an admiralty contract that paid amounts from the original £60,000 up to £173,340 for the North Atlantic mail service. The original contract called for fortnightly service; in the later 1840's the service was placed on a weekly schedule, because of competition from American lines then being organized.

Another result of the improving service and the growing competition among carriers on the North Atlantic route was the relinquishment of contracts to the Postmaster General in the 1860's; the contract of 1868 was negotiated with the Postmaster General and called for payments of £70,000 for semiweekly service. From 1877 to 1902 payments were on a weight basis; during part of this time the contracts were for 1 month, enabling the Government to take advantage of shifts resulting from competition in this area. Government contracts were let during these years to Inman, North German Lloyd, White Star (Oceanic Steam Navigation Company), Guion, and Anchor Lines, in addition to Cunard, which gives some indication of the highly competitive state in the North Atlantic services. Postal rates were reduced substantially during these years, also, which meant reduced payments for the ocean carriers.

Competition from German liner companies was especially keen in the North Atlantic, which may have been one of the factors contributing to the resumption in 1905 of fixed

payments. Under this contract (1903–1927) the Cunard Company was to receive £68,000, about $330,900, plus additional payment for mail over specified weight and volume.

The most interesting and significant provisions of the contract relate, however, to the specifications made by the admiralty.

The right of purchase or hire of any vessels of the company rested in the admiralty; previous notice of plans to hire a vessel must be given to the admiralty. No vessel of a speed of 17 knots or over could be sold; the design of any vessel that would make the above speed must be approved by the admiralty. The admiralty was to be afforded facilities for fitting armaments on board and to be given free storage for admiralty equipment in the company warehouses. No undue preference was to be given to foreigners, and freight rates were not to be unduly raised.

All officers and 75 per cent of the crew were to be British subjects; on the three principal vessels all deck officers and 50 per cent of the crew were to be naval reservists.

Further significant provisions of the contract were that the Government was to hold one share of stock valued at £20, that certain safeguards against the transfer of stock to foreigners were to be set up, and that the company was "to be and remain under British control."

Two new vessels were to be constructed, with a speed of 24 to 25 knots, built to the specifications of the admiralty. For the construction of these two high-speed vessels the British government for the first time made a direct public loan to a British shipping company. A loan of £2,600,000 ($12,653,000), drawing 2¾ per cent interest beginning with the entry of the vessels into service, was to be repaid in 20 annual installments.

Under this contract the "Lusitania" and the "Mauretania" were constructed; the admiralty required that they

make a speed of 24½ knots. The Government agreed, in view of the higher operating costs for the large high-speed vessels, to advance £75,000 (about $364,000) annually to each vessel for each of 20 years, a total of $7,280,000 per ship—a direct subsidy from the admiralty. The speed-cost scale on which the admiralty subsidy was based ranged from payments of £9,000 ($43,800) for a 20-knot vessel to £204,000 ($992,765) for a 26-knot vessel, to be paid annually.

There can be little doubt that the introduction of this public-loan policy was due to the competition in the North Atlantic shipping and the felt need for securing the advantages which speed and de luxe service gave on an important passenger route.

The 1928 contract called for a mail payment of £100,000 for regular service and a speed of at least 20 knots. The master, officers, and three-fourths of the crew were to be British subjects; the contractors agreed to "encourage the Royal Navy Reserve movement among the officers and men on board the contractors' ships." The ships were to be capable of carrying 6-inch guns; other details were specified by the admiralty.

An almost identical contract was concluded with the White Star Line (Oceanic Steam Navigation Company).

Some further interesting information is given in the 1943 Stock Exchange Official Year-Book: One government share is "held on behalf of the British Government." Voting is on the basis of one vote per pound (£); "the government share has certain additional voting rights 'to be used only to maintain the all-British character of the company.'" Certain financial transactions require the "consent of His Majesty's Treasury." Transfers require a "special form (with declaration as to nationality of transferee) to prevent any of the capital from passing under foreign control."

In 1934 the White Star Line was purchased by the

Cunard Steamship Company, Ltd. In this company, also, "all directors must be British subjects." Further, the company "must always remain under British control." "No share can be held by or on behalf of foreigners."[1]

Certainly by these provisions and by the subsidies the importance of this line in the British mercantile marine and as an auxiliary of the British Navy is made perfectly obvious.

Royal Mail Steam Packet Company

Since the West Indies route had no one big company serving it in the way that the "P & O" served the Far East, the Government was at a loss as to how to meet the problem; the question was answered, however, "by accepting the proposal of some enterprising merchants to form a company for the purpose of taking the responsibility off the shoulders of the Government in consideration of a subsidy."

Thus the company serving the third important British route of that period was organized for that express purpose, with the understanding that the Government would underwrite the operations with a subsidy.

In addition to the specifications as to the arming of the vessels (stated in above contracts) the first contract, 1840, specified that the Royal Mail Steam Packet Company should receive from the Government—the admiralty—an annual subsidy of £240,000 ($1,168,000) plus additional amounts if insurance rates rose unduly from causes outside the control of the company and/or if coal freights rose beyond a certain limit and thus increased the costs of operation; the additions were not to exceed £60,000 in any 1 year.

The 1852 contract specified the subsidy as £270,000 ($1,314,000) and extended the services to Brazil; later this extension included the Plata River.

[1] Stock Exchange Official Year-Book, 1943 ed.

It should be noted here that the commercial interests of this company became very great and the operations highly profitable. The commerce arising from the gold rush to California added to the company's business and profits.

By the 1864 contract the subsidy was reduced to £172,914 ($841,485); in 1868 the agreement was reached that the Government was to receive one-half of all profits over 8 per cent on the investment.

The contract of 1874 called for a payment of £84,750, which was approximately the amount paid in subsidy annually thereafter during the life of the contract.

In 1907 the payments were put on a weight basis, amounting to about £20,000 annually. In 1911 the amount was changed to £62,900 less receipts from sea postage.

The First World War abrogated contracts, but since that time payments have been on the quantity of mail carried, at sea postage rates; parcel post is on a contract payment.

APPENDIX B

REGISTERED SHIPS BELONGING TO THE BRITISH EMPIRE

Year	Peace or war	Ships	Tons	Men
1790	Peace	15,015	1,460,823	112,556
1793	War	16,329	1,564,520	118,952
1795	War	16,728	1,574,451	116,467
1798	War	17,295	1,666,481	129,546
1800	War	17,895	1,856,175	138,721
1802	Peace—1 year	20,568	2,128,055	154,530
1805	War	22,051	2,083,442	157,712
1807	War	22,297	2,281,621	157,875
1810	War	23,703	2,426,044	164,195
1812	War	24,107	2,478,799	165,030
1815	War	24,860	2,681,276	177,309
1817	Peace	25,526	2,664,986	171,013
1820	Peace	25,374	2,648,593	174,514
1825	Peace	24,280	2,543,682	166,183
1830	Peace	23,721	2,531,819	154,812
1835	Peace	25,511	2,783,761	171,020
1840	War	28,962	3,311,538	201,340
1845	Peace	31,817	3,714,061	224,900
1850	Peace	34,288	4,232,962	239,283
1855	War	35,692	5,250,553	261,194

SOURCE: Departmental Committee on Shipping and Shipbuilding Industries, appointed by the Board of Trade, 1918, Final Report (Cd. 9092). Appendix C, p. 138, "British Merchant Shipping during the Napoleonic Wars and After, Extract from Appendix 19 to the Report of the Commissioners appointed to enquire into the best means of Manning the Navy—presented to Parliament in 1859."

APPENDIX C

COMPARATIVE GROWTH OF STEAM TONNAGE OF BRITISH AND GERMAN MERCHANT MARINES

(Thousands of Tons Net)

Year	United Kingdom	Dominions and colonies	Total British Empire	Germany
1850	168.5	19.1	187.6	
1860	454.3	45.8	500.1	
1870	1,112.9	89.2	1,202.1	82.0
1880	2,723.5	225.8	2,949.3	215.8
1890	5,042.5	371.2	5,413.7	723.7
1895	6,121.6	422.9	6,544.5	879.9
1900	7,207.6	532.2	7,739.8	1,347.9
1905	9,064.8	690.5	9,755.3	1,915.5
1910	10,442.7	926.4	11,369.1	2,396.7
June 30, 1914	11,538.0	901.8	12,439.8	3,096.0

SOURCE: Departmental Committee on Shipping and Shipbuilding Industries, appointed by the Board of Trade, 1918, Final Report (Cd. 9092), Appendix D, Table I, p. 138, "Net Tonnage of the Steam Vessels belonging to the Merchant Navies of the Principal Maritime Countries of the world at the end of certain years from 1850 to 1910, and on June 30th, 1914."

APPENDIX D

TRUSTS AND COMBINES[1]

Furness, Withy and Company, Ltd.
Registered Sept. 16, 1891
Capital £7,500,000
Subsidiaries:

1. Furness Shipbuilding Company, Ltd. (private company)
   Chairman—Walter Furness
   Registered Oct. 13, 1917
   Capital:* A—£3,000,000
   I—£650,000
2. Johnston Warren Lines, Ltd. (private company)
   Chairman—Lord Essendon[2]
   Registered July 19, 1898 as "White Diamond Steamship Company, Ltd." converted into a private company May 19, 1908. Acquired undertakings of "Johnston Line, Ltd." and "Neptune Steam Navigation Company, Ltd." in 1934. Passenger, cargo, and mail service: Liverpool to St. Johns, Newfoundland, etc.; Antwerp, Swansea, and Liverpool to Mediterranean and Black Sea ports.
   Capital:* A—£1,250,000
   I—£1,164,675
   in £914,675 ordinary shares and £250,000 preferred shares. Furness, Withy and Company, Ltd., owns 605,963 ordinary shares and all preference shares.
3. Furness-Houlder Argentine Lines, Ltd.
   Chairman—Lord Essendon

[1] All material is from editions of the Stock Exchange Official Year-Book and Moody's Manual of Investments.
[2] Deceased 1944.
* A-authorized. I-issued.

Registered July 9, 1914
Capital:* A—£1,000,000
I—£500,000
Majority of shares are owned by Furness, Withy and Company, Ltd.

4. Manchester Liners, Ltd.
Chairman—Lord Essendon
Capital:* A—£1,000,000
I—£902,920
5. Richardsons, Westgarth and Company, Ltd.
Chairman—Lt. Col. H. W. Stobart
Registered Oct. 29, 1900
Capital:* A—£1,120,000
I—£618,712
Marine, turbine, electrical, and general engineers, boilermakers, etc.
6. British and Argentine Steam Navigation Company, Ltd.
Registered Oct. 16, 1909
Controlled by Furness, Withy and Company, Ltd.
7. Prince Line, Ltd.
Chairman—Lord Essendon
Registered Feb. 28, 1895. Directly controls Prince Line Agency, Ltd.
Capital:* A—£1,500,000
I—£1,202,990
in shares of £1 fully paid. 1,055,356 are owned by Furness, Withy and Company, Ltd.
8. Rio Capt Line, Ltd.
Chairman—Lord Essendon
Registered Sept. 6, 1917 as private company. Converted into public company Mar. 31, 1925.
Capital:* A—£600,000
I—£450,000
in shares of £1 fully paid. "All are owned internally (390,000 by Furness, Withy and Company, Ltd.)."
9. Cairns, Noble and Company, Ltd.
10. Gough and Crosthwaite, Ltd.

*A-authorized. I-issued.

11. Norfolk and North American Steam Shipping Company, Ltd.
12. Trinidad Trading Company, Ltd.
13. Houlder Brothers and Company, Ltd.

Chairman—Lord Essendon
Registered Jan. 26, 1898
Capital:* A and I—£900,000 in 160,000 ordinary shares and 20,000 preference shares of £5 fully paid. 79,720 ordinary shares are owned by Furness, Withy and Company, Ltd. "Merchants, freight contractors, shipowners & brokers, etc." formed to acquire business of Houlder Brothers and Company, Ltd.
Managers of:

A. Houlder Line, Ltd.

Chairman—Lord Essendon
Registered Mar. 16, 1899
Capital:* A and I—£775,000 in 110,000 ordinary shares and 45,000 preference shares of £5 fully paid. 57,778 ordinary shares are owned by Houlder Brothers and Company, Ltd.

B. Empire Transport Company, Ltd.

Chairman—Lord Essendon
Registered Mar. 4, 1902
Capital:* A—£625,000
I—£287,500

C. British Empire Steam Navigation Company, Ltd.

Chairman—Lord Essendon
Registered Feb. 17, 1941
Capital:* A—£500,000
I—£187,500

Houlder Brothers and Company, Ltd. also directly controls

1. Bergl Australia (London), Ltd.
2. Houlder Brothers and Company (Brazil), Ltd.
3. Houlder Line, Ltd.
4. Houlder Estates, Ltd.

*A-authorized. I-issued.

14. Shaw, Savill and Albion Company, Ltd.
Chairman—Lord Essendon
Registered Nov. 10, 1882
Capital:* A—£1,200,000
I—£1,195,375
in 39,075 A preferred and 200,000 B ordinary of £5 fully paid. Practically all the B ordinary shares are owned by Furness, Withy and Company, Ltd., and associated companies. Formed to acquire undertakings of Shaw, Savill and Company and Albion Shipping Co. Acquired undertakings of Geo. Thompson and Company in 1932 and the Australian business of the White Star Line in 1934. Owns (*inter alia*) (jointly with "P & O") all shares of
Aberdeen and Commonwealth Line, Ltd. (private company)
Chairman—Lord Essendon
Registered Apr. 10, 1933
Capital:* A and I—£500,000 in ordinary of £1 fully paid.
All are owned by "P & O" and Shaw, Savill and Albion and their associated companies. Passenger and cargo service (also mail service at intervals).

15. British Maritime Trust, Ltd.
Chairman—Lord Essendon
Registered May 5, 1888
Capital:* A and I—£1,000,000
Majority owned by Furness, Withy and Company, Ltd., "operations confined to mercantile trust and investment business and especially to making advances on maritime securities."
Owns direct controlling interest
A. Arcade Property Company, Ltd.
B. Shipping Investment Trust, Ltd.
C. Danube Navigation Company, Ltd.
Chairman—Lord Essendon

* A-authorized. I-issued.

Registered July 9, 1920
Capital:* A—£800,000
I—£404,700

All shares are owned by British Maritime Trust, Ltd.

"Company guarantees the shares of"

1. Bermuda Development Company, Ltd.
President—Lord Essendon
Incorporated July 5, 1920
Capital:* A—£1,100,000
I—£1,044,280

"formed to develop the hotel and tourist business in Bermuda. Owns (*inter alia*) 2 hotels, 2 golf courses and residential estate in Bermuda."

16. Furness House, Inc.

*A-authorized. I-issued.

APPENDIX E

INTERLOCKING DIRECTORATES[1]

The late R. Hon. Lord Essendon, J. P., chairman of Furness, Withy and Company, Ltd., a vice-president of the Council of the Federation of British Industries, was also on the board of the following:

Aberdeen and Commonwealth Line, Ltd. (Chairman).

Barclays Bank (dominion, colonial, and oversea).

Barclays Bank, Ltd.

Bermuda and West Indies Steamship Company, Ltd. (President).

Bermuda Development Company, Ltd. (President).

British Auxiliaries, Ltd. (Chairman).

British Empire Steam Navigation Company, Ltd. (Chairman).

British Maritime Trust, Ltd. (Chairman).

Cairns, Noble and Company, Ltd.

Cunard White Star, Ltd.

Danube Navigation Company, Ltd. (Chairman).

Deepwater Wharf, Ltd. (Chairman).

Economic Insurance Company, Ltd. (Chairman).

Empire Transport Company, Ltd. (Chairman).

Furness (Egypt), Ltd. (Chairman).

Furness (Far East), Ltd. (Chairman).

Furness-Houlder Argentine Lines, Ltd. (Chairman and a managing director).

Houlder Brothers and Company, Ltd. (Chairman and a managing director).

[1] All material compiled from the Directory of Directors, 1943 ed., Thomas Skinner & Co., Ltd., pp. 483–484.

Houlder Line, Ltd. (Chairman).
Johnston Warren Lines, Ltd. (Chairman).
Manchester Liners, Ltd. (Chairman).
Norfolk and North American Steam Shipping Company, Ltd. (Chairman).
Pacific Steam Navigation Company (Chairman).
Planet Assurance Company, Ltd. (Chairman).
Prince Line, Ltd. (Chairman).
Rio Cape Line, Ltd. (Chairman).
River Syndicate, Ltd. (Chairman).
Royal Mail Agencies (Brazil), Ltd. (Chairman).
Royal Mail Lines, Ltd. (Chairman).
Shaw, Savill and Albion Company, Ltd. (Chairman).
Shipping Investment Trust, Ltd. (Chairman).
Sun Insurance Office, Ltd.
Sun Life Assurance Society.[1]

[1] A Canadian company.

APPENDIX F[1]

MAIL-CONTRACT PAYMENTS TO UNITED STATES STEAMSHIP COMPANIES

1847–1858. In spite of opposition from sailing shipowners, Congress, Mar. 3, 1845, authorized the Postmaster General to advertise for bids from steamship companies for carrying mail to foreign countries.

A 5-year contract, effective in April, 1847, was concluded with the Ocean Steam Navigation Company for carrying the mail to Bremen and to Le Havre from New York; a later contract with the Collins Line provided service from New York to Liverpool. Services between Panama and New York, Astoria and Panama, and Charleston and Havana were instituted during this period. A summary of payments on the various services follows:

UNITED STATES EXPENDITURES FOR MAIL-CONTRACT PAYMENTS

Line	Period	Amount
New York—Bremen	1847–1857	$ 2,000,000
New York—Le Havre	1852–1857	750,000
New York—Liverpool	1850–1858	4,500,000
New York—Panama	1848–1858	2,900,000
Astoria—Panama	1848–1858	3,750,000
Charleston—Havana	1848–1858	500,000
Total		$14,400,000

[1] All material in Appendix F is compiled from SAUGSTAD, *Shipping and Shipbuilding Subsidies;* U.S. Maritime Commission reports; and annual reports of the Postmaster General.

1864–1877. Mail-contract payments were reinstituted under a bill passed in 1864, by which services were extended to South America, China, and Japan.

Line	Amount
Brazil Line	$1,500,000
Pacific Mail Steamship Company	4,580,000
Honolulu Service	425,000
Total	$6,505,000

Mail subsidies were granted only to these new services; the Postmaster General refused to conclude a contract for the European services under the bid available.

1891–1920. The law of 1891 specifically provided that "contract vessels should not receive any other subsidy or bounty from the United States Treasury." However, no other type of bounty or subsidy was voted at that time.

During this period services were maintained from New York to Antwerp and Southampton, to Mexico and Venezuela. At some time during the period services were in existence to Havana, to Brazil, to Buenos Aires, to Hong Kong, to Panama, all originating in New York, Boston, or Philadelphia; for most of the period mail was carried from San Francisco to Sydney.

It is important to note that out of 53 services on which bids were opened, only 11 were ever contracted for. "The ocean mail act of 1891 has not generally been considered a great stimulant to United States Shipping."

The total amount paid out was $29,630,929.

1920–1929. The Merchant Marine Act of 1920 provided in Section 5:

> The Board and the Postmaster General, in aid of the development of a merchant marine adequate to provide for the maintenance and expansion of the foreign or coastwise trade of the United States and of a satisfactory postal service in connection therewith, shall from time to time determine the just and reasonable rate of compensation to be paid for such service.

Payments made to the American South African Line, the Dollar Steamship Line, the Export Steamship Corporation, the Grace Steamship Corporation, the Munson Steamship Line, and the Oceanic Steamship Company totaled $4,801,953.

1928–1936. "Immediately after the act of 1928 became operative the Postmaster General certified to the Shipping Board, as essential ocean-mail routes, 27 itineraries. . . . Subsequently 25 contracts were awarded to successful bidders." Later 16 additional contracts were let. Thirty-two companies held the contract, under which the payments in 1930 were $13,066,441. Estimates were that the 10-year contracts would call for the expenditure of $282,426,400; the contracts were abrogated, however, before they had run their course. By the end of the fiscal year, June 30, 1936, payments under the act of 1928 had totaled $154,632,907.66.

1937. In 1937, all Maritime Commission contracts for mail payments were abrogated, and claims were settled on 32 of the contracts for $750,000. A later settlement with one other shipping company called for the payment of $185,000. Litigation on some claims was protracted; many were dismissed. Exact figures are not available, but the total paid on the settlement of the claims probably was approximately $1,000,000.

SUMMARY OF ALL MAIL-CONTRACT PAYMENTS

Period	Amount	
1847–1858	$ 14,400,000.00	
1864–1877	6,505,000.00	
1892–1920	29,630,929.00	
1920–1929	4,801,953.00	
1929–1936	154,632,907.66	
1937	1,000,000.00	(approximate claims settlement)
Total	$210,970,789.66	

APPENDIX G

CRITIQUE OF THE MERCHANT MARINE ACT OF 1936*

Attention focused on our merchant marine policies resulted in the passage of the Merchant Marine Act of 1936, designed to find a scientific basis for the allocation of construction and operating subsidies, an adequate ship replacement program, and the substitution of direct subsidies for mail payments.

Merchant Marine Act of 1936. The amended act includes the following broad provisions or titles: Title I—Declaration of Policy; Title II—United States Maritime Commission; Title III—American Seamen; Title IV—Ocean-mail Contracts; Title V—Construction-differential Subsidy; Title VI—Operating-differential Subsidy; Title VII—Private Charter Operations; Title VIII—Contract Provisions; Title IX—Miscellaneous Provisions; Title X—Maritime Mediation Board; and Title XI—Federal Ship Mortgage Insurance.

These titles are subdivided into sections in which are included these features: (1) the creation of a Maritime Commission of five members to administer the duties prescribed by the act; (2) the transfer of the powers and functions of the Shipping Board to the Commission and the dissolution of the United States Shipping Board Emergency Fleet Corporation; (3) the creation of a Construction Fund to replace the Construction-Loan Fund as provided in Section 11 of the Merchant Marine Act of 1920, with

* All material is compiled from Merchant Marine Laws, published by Marine Progress, 1939–1940.

the reserves of the latter to be transferred to the new fund; (4) the provision for periodic scrapping of old merchant tonnage; (5) the acquisition of vessels by purchase or otherwise; (6) the training of merchant seamen; (7) provision for marine insurance; (8) the establishment of minimum manning and wage scales; (9) the termination of all existing ocean-mail contracts, effective June 30, 1937; (10) the provision for construction-differential and operating-differential subsidies to equalize the difference between foreign and domestic costs; (11) the construction of ships of various classes by the Maritime Commission for sale to private operators; (12) the recapture by the commission of one-half of the net profits over 10 per cent; (13) the limitation of salaries in shipping companies to $25,000 per individual; and (14) the general encouragement of private ownership and operation as set forth in the Declaration of the act. The provisions with which this analysis is primarily interested are those relating to the subsidy program.

1. *Construction-cost Differential Subsidy.* The amount to be allowed is based upon the difference between the lowest bid of an American shipbuilder and the fair-and-reasonable-cost estimate of a similar ship built in a foreign yard for operation by a foreign competitor. In other words, the estimate is related to the costs prevailing in a representative foreign shipbuilding center. The differential is limited to a maximum of 33⅓ per cent of the American cost of the ship but may be extended to 50 per cent on the basis of conclusive evidence which would warrant so doing. The applicant must make a down payment equivalent to 25 per cent of the actual American cost of the vessel paid by the commission. This was later amended to read 25 per cent of the foreign construction cost. The applicant may use an obsolete vessel as partial down payment. An obsolete ship in this instance is defined as one which is not less than 17 years old and must have been owned by a

citizen or citizens of the United States for at least 3 years immediately prior to the time when it is acquired by the commission under the trade-in provisions; it may have been used in either the domestic or foreign trade of the United States. The difference between the down payment and the total purchase price becomes a 20-year obligation at 3½ per cent interest, amortized at the rate of 5 per cent annually, which corresponds to the depreciation practice commonly followed by private owners. This subsidy may be applied for in the construction of a vessel to be used on a service, route, or line designated as essential to the foreign commerce of the United States.

2. *Operating-cost Differential Subsidy.* This subsidy may be granted in order to equalize the operator's voyage expenses with those of his foreign competitors as to wages, food, maintenance, repairs, etc. Quoting the act under Title VI, Section 603 (*c*),

> The amount of such subsidy shall be determined and payable on the basis of a final accounting made as soon as practicable after the end of each year or other period fixed in the contract. The Commission may provide for in the contract, or otherwise approve, the payment from time to time during any such period of such amounts on account as it deems proper. Such payments on account shall in no case exceed 75 per centum of the amount estimated to have accrued on account of such subsidy, except that, with respect to that part of the subsidy relating to any particular voyage, an additional 15 per centum may be paid to the contractor after such contractor's audit of the voyage account for such voyage has been completed and the Commission's auditors have verified the correctness of the same. Any such payments shall be made only after there has been furnished to the Commission such security as it deems to be reasonable and necessary to insure refund of any overpayment.

In addition, the operator must observe the minimum wage scale established by the commission; he must operate on

the same trade route for as long as the subsidy continues; at the end of each 10-year period he must refund to the commission one-half of any net profits over 10 per cent; and neither his nor any one of his employees' salaries, respectively, may exceed $25,000 annually. The contract may run as long as 20 years, which is the normal life of a ship. No subsidy may be granted to a vessel that is engaged in coastwise or intercoastal trade except as it includes foreign trade. According to Section 605 (*a*) of the act,

> . . . such subsidy may be paid on a round-the-world voyage or a round voyage from the west coast of the United States to a European port or ports or a round voyage from the Atlantic coast to the Orient which includes intercoastal ports of the United States or a voyage in foreign trade on which the vessel may stop at an island possession or island territory of the United States, and if the subsidized vessel earns any gross revenue on the carriage of mail, passengers, or cargo by reason of such coastal or intercoastal trade the subsidy payment for the entire voyage shall be reduced by an amount which bears the same ratio to the subsidy otherwise payable as such gross revenue bears to the gross revenue derived from the entire voyage.

Inland waterways and Great Lakes shipping are also excluded from a subsidy grant.

3. *Countervailing Subsidy.* This was provided for under the act, which reads as follows:

> If in the case of any particular foreign-trade route the Commission shall find after consultation with the Secretary of State, that the subsidy provided for in this title is in any respect inadequate to offset the effect of governmental aid paid to foreign competitors, it may grant such additional subsidy as it determines to be necessary for that purpose: *Provided*, That no such additional subsidy shall be granted except upon the affirmative vote of four of the members of the Commission.[1]

The countervailing subsidy has not been utilized.

[1] Section 604 of the Merchant Marine Act of 1936 as amended.

The Merchant Marine Act of 1936 represents the first serious attempt to find a solution of American shipping problems and, so far as the subsidy features are concerned, is the most sound and businesslike method to date that has been devised for equalizing construction- and operating-differential costs. The act indicates a more effective approach to the American merchant-marine problem than had any previous legislation.

The first problem the commission had to face was the replacement of a fleet becoming rapidly obsolescent. In its Economic Survey of the American Merchant Marine of 1937, the commission estimated that it would require by the end of 1942 the construction of 1,305 vessels of 2,000 gross tons and over, aggregating 7,402,000 tons at a total cost of $2,500,000,000 to replace our total outmoded fleet. This was obviously impracticable; therefore, the plan conceived by the commission was to replace our obsolete vessels at the rate of 50 a year over a 10-year period. This would provide for a definite and progressive replacement policy.

A second problem was the determination of what constitutes proper differential costs between building and operating a vessel in the United States and building and operating one abroad.

Certain difficulties arise in the administering of the act. One such difficulty relates to the expenditure of public funds for construction- and operating-differential subsidies. It is difficult to establish the cost-of-construction basis for determining the amount of construction subsidy to be paid. In the calculation of the operating-subsidy payments there is the possibility of disagreement as to the items to be allowed on the subsidy accounts; such payments are always difficult to determine.

Subsidies are limited to vessels or lines operating in what are designated as essential direct trade routes; the possi-

bility arises, therefore, that there may be other, indirect routes on which it is important to have United States lines operate and which should be eligible for subsidies under the act.

The act provided further for the recapture and limitation of profits, which may either discourage capital from entering the field of international shipping or may result in handicaps to operators in the field.

There have been several amendments to the Merchant Marine Act of 1936; some problems still remain to be solved. However, many worth-while objectives were accomplished, such as the recognition of the subsidy principle and provision for a replacement program.

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