

TARIFFS THE ENEMY
OF OUR SHIPS

FOR a considerable part of our national life our protective tariffs have made it impossible for the citizens of the United States to maintain a merchant marine without government aid. Americans are naturally splendid sailors in peace as in war. We have superb harbors, and we produce almost all the materials needed for engines and ships as well as endless quantities of goods which other nations desire to purchase from us. Yet we have constantly seen the bulk of our exports carried in foreign vessels. This has been in part due to the marvelous opportunities that have presented themselves to young Americans in the settlement of our Middle West and Western domain, to the ease with which land could be acquired—for generations without cost—and in the exploitation of our vast natural resources. But at bottom the reason why we had practically no merchant marine between 1870 and the first World War has been our foolish and crippling navigation laws and our protective tariff.

Of this there is complete proof in that during the two decades of 1840 to 1860 when our tariffs were *lower than at any time in our history* after we really became a nation, we outbuilt, outsailed, and outmanaged the world with our famous clipper ships. So speedy were our vessels that the English bought a number for the fast runs with wool from Australia and with tea and silks from China. So able were our skippers that they not only raced past their rivals, but proved themselves better buyers of cargoes abroad and quicker in loading and unloading in foreign harbors than

any of their competitors; often they were their own super-cargoes. As Professor Samuel Eliot Morison of Harvard has put it: "It was a constant marvel to Europeans who conducted the China trade in great ships owned by chartered monopolies, how the Americans managed to survive these heavy charges [in customs] with their small, individually owned vessels. Yet the American, and particularly the Boston, way of trading was the more economical. Free competition, the elimination of pomp and circumstance, more than made up for the small craft's disadvantage in 'overhead.'" He reinforced this by these words: "A tea party in Boston Harbor, at the expense of the British East India Company, brought on the American Revolution. Twenty years later, tea and spices earned through trafficking with savage tribes, carried in Massachusetts vessels and handled by her merchants, were underselling the imports of the mighty monopoly in the markets of Europe."¹

Another witness is Daniel Webster, who, in 1816, said of our nautical achievements: "How, sir, do shipowners and navigators accomplish this? How is it that they are able to meet and in some measure to overcome universal competition? Not, sir, by protection and bounties, but by unwearyed exertion, by extreme economy, by unshaken perseverance, by that manly and resolute spirit which relies on itself to protect itself." In 1855, no less than 5,539,813 tons, or almost one-third of the 17,235,949 tons which then constituted the total fleet of the world, flew the American flag, 75 per cent of our ocean foreign trade being carried by vessels hailing from United States ports, of which no less than 1,300,000 tons were exclusively engaged in trade between the United States and foreign countries. This predominance of our shipping was the more striking because, with the exception of

¹S. E. Morison, *Maritime History of Massachusetts* (Boston: Houghton Mifflin & Co., 1921), pp. 67 and 95.

wood, all materials that entered into the construction of a ship cost more in the United States than in other countries. Furthermore, our crews were paid more than were foreign seamen—which is perhaps an answer to those who maintain that, since the same wage conditions persist today, we cannot possibly make a success of a merchant fleet in the postwar world without government aid.

Actually, our vessels in the clipper-ship period made one-third more trips in the course of a year than did their competitors, and with smaller crews. Insurance cost less and better freight rates were obtained because of their ability to load and unload faster and to carry more cargo in proportion to their registered tonnage than their rivals. If the Civil War had not come, bringing with it the depredations of the Confederate cruisers, had we not continued our stupid navigation laws, had we not built up our tariff system to obtain revenue for the conduct of that war, the United States might easily have maintained its marine supremacy from that day until this. Another reason for our failure to do so was the coming in of the iron ship, which could be much more cheaply constructed at that time in England. We could not turn the tables upon the English by buying their ships as they had bought clippers from us—because of our navigation laws. Hence American shipowners who wished to continue in business with foreign-built vessels were forced to fly British colors upon them, or those of some other country, and so the American flag disappeared from the high seas. By 1895 we had only 822,347 tons of ships in our foreign trade, and ten years later the figure had only risen to 943,750.

Protectionists have long admitted their responsibility for the parlous plight of our shipping in that their tariff raised the costs of construction and of operation. They could do nothing else as is shown by one illustration which is the clearest example of how the tariff stopped merchant marine enter-

prise to be found in the long record of the deliberate suppression of our shipping business. In 1876 Boston merchants launched a steamship line to Chile with British-flag vessels, to carry American farm products, cotton fabrics, machinery and hardware to Chilean harbors. They soon had to abandon the enterprise because of their inability to obtain return cargoes for the reason that wool and copper, the only commodities which the Chileans could then send us in large amounts, could not be sold in this country due to the prohibitive tariff rates which had to be paid upon them. Thus the American people were deprived of the additional, and cheaper, wool and copper.

So, yielding to a growing nationalistic trend, instead of continuing to show our flag in the harbors of the world we let our shipping decay until, in the 1890's, we sought to rebuild it by subsidies in one form and another. That was in keeping with the fundamental principle of the whole tariff system, which is to induce the Government to join you as a sleeping partner to offset your deficits and to assure you gains. The enormous increase in the number of our shipbuilders, because of the war, gives them even more power to demand aid on the ground that the existing tariffs compel it—for years they assured Congress that the tariffs made a difference of no less than 40 per cent on "every conceivable item which enters into the cost of ships," which surely established the responsibility of our tariff system for our failure to produce moderately priced vessels.

The result of this utterly stupid national policy was that the United States took no part whatever in the gigantic development of ocean transportation. As Rear Admiral French E. Chadwick put it, because of our nationalistic folly "the changes from wood to iron, from iron to steel, in construction; from the paddle to the screw; from the screw to the multiple screw; from the simple engine to the compound;

from the compound to multiple expansion; from the reciprocating to the turbine engine, have been none of our initiative. We have been but followers in this great change—and at a sadly long distance.”²² There was thus no incentive for enterprising Americans to venture their capital in transoceanic voyaging.

Yet the protectionists are the very ones who have been loudest in their demands that the Government subsidize American ships, seeing no inconsistency whatever in putting up tariffs to keep foreign goods *out* of the United States and then demanding that the Government financially aid the shipowners to bring more cargoes of foreign products *into* our harbors—these patriots have indubitably fine qualities, but no sense of humor, or economic understanding. It is also an interesting historical fact that those Republican business interests which from the days of President Benjamin Harrison’s Administration have been foremost in putting over mail and other subsidies have always been closely identified with the Pennsylvania tariff profiteers, notably in the development of the American Line to Europe in the last decades of the nineteenth century.

Because of the Second World War the situation of our merchant marine has wholly changed in that at its close 80 per cent of the fleet was owned by the Government and it has been ruled with an iron hand by the Maritime Commission and the Maritime War Board in Washington. Their former chairman, Admiral Emory S. Land, in 1944, laid down our postwar policy without awaiting either Presidential or Congressional approval by declaring that we should keep enough ships in commission to carry 50 per cent of our foreign trade. He gave no economic reason why the figure should be 50 per cent and not 60 percent or 40 per cent, for there was none. Of course the Admiral could

²²*The Nation*, April 18, 1912.

not guarantee what the percentage will finally be, since Congress will certainly not require American shippers to use American vessels for half their shipments and then turn to foreign vessels after our American ships have carried exactly half of our exports. Nor will it forbid our citizens to give 75 per cent or more of their overseas trade to British or French or Russian ships if they offer cheaper, faster, or otherwise better service than Americans are able to provide. As a matter of fact the United States has suffered no economic loss, except occasionally in war times, because we did not have a large merchant marine. That is not, however, a reason against our developing a sound, well-managed, self-supporting and independent shipping industry free from tariff hindrances and crippling navigation laws, which we should certainly have if it is financially possible.

Today, however, both of our political parties, and therefore Congress, are thoroughly committed to the subsidy idea which first took the form of high governmental expenditures for mail service, often out of all proportion to what was actually rendered. Thus, for years, an American steamship line from Savannah to Europe received thousands of dollars for carrying a handful of letters on each voyage. Actually, there is no difference in principle between a mail subsidy and one based on tonnage or speed, or special construction with a view to wartime service, or to carrying certain kinds of cargo. In each case it is government support and intervention—even though it is often acclaimed and upheld by the very persons who inveigh most loudly against governmental interference in private business if that takes other forms than making losses good or guaranteeing profits. As *The Nation* and other free trade journals prophesied as far back as 1888, it was a certainty that if we began giving Treasury money to privately owned and managed ship lines to carry mails, not on the basis of public bidding,

but on the color of their flag, it would only be a matter of time before the body of the protection camel followed the head into the tent.

That prophecy has been entirely fulfilled in that, in the years preceding the global war we have given tonnage bounties, building subsidies (which gave the owner the difference between the American price and a foreign one) and also payments for the difference between foreign and American wages, in addition to huge outlays for mail. So Congress actually runs up ship costs by its protective tariffs and then turns around and refunds the excess costs to the Americans who have paid them! Could there be a greater absurdity? There is no clearer case than this of the drift to State ownership and the totalitarian theories. Even President Taft admitted frankly that paying ship subsidies meant taking the money of all the people to help a few, but he justified it by the astounding admission that, after all that was what the tariff was doing for all the protected manufacturers. In the case of the latter, a chief excuse is that if this un-American policy of digging into the Treasury to keep alive businesses that cannot stand on their own feet were abandoned, there would be mass unemployment. That argument fails when it comes to ship subsidies because of the relatively small numbers of men employed on the seas, and so the protectionists fall back upon the patriotic arguments that we must show our flag the world over at any cost and be prepared for the next war.

Yet no advocate of ship subsidies would dream of urging that citizens of New York patronize the New York Central Railroad if it not only charged as much as the competing lines, but also insisted that each shipper or passenger using the railroad contribute, with all his fellow-citizens, additional sums to help it make some more money. But this is precisely the ship subsidy plan translated into land terms.

It is not only demoralizing to the general public, it is inevitably deleterious to those who directly benefit by it. Our ships lose the old incentive of having to make good by the efforts of their managers and crews or go out of business. The owners always have in the back of their minds the thought that if things do not go well, they can put on rags and appear before the appropriate Congressional committee to plead their poverty and dire distress.

Only a few shipowners have taken the fine old American stand of wanting no government aid. One of these was that remarkable man, the late Robert Dollar, of San Francisco, who in mistakenly attacking the LaFollette Shipping Bill, that epoch-making measure which did so much to improve conditions on shipboard and to promote safety at sea, said:

To our Congressmen I cannot help repeating what I have said on many occasions, the shipowners want none of your subsidies or assistance of any kind. We have given up going to you as beggars, with our hats in our hands, and now tell you to give us no advantage of any kind whatever. But we demand that you put us on exactly the same footing as other nations put their shipowners; namely, permit us to buy our ships where we can get them cheapest, and to operate them under the same conditions as our foreign competitors are doing, and give us no better terms than they enjoy of any kind or description. The American shipowner will do the rest and give our country an American merchant marine worthy of the name.

Another commendable attitude was that of the Lykes brothers, who, some years ago, were proud of having built up a fleet of sixty vessels without ever having taken a dollar of government money.

In the early days of subsidies, the laws governing them were too often honored in the breach; for example, the obeying of the regulation requiring that a certain percentage of the crews be American citizens. The number of German

stewards on the United States Lines' ships after the first World War showed that the naturalization offices were being kept very busy! Undoubtedly this state of affairs has been improved, but the revelations in the Morro Castle and other disasters portrayed anything but an efficient manning of some of our ships at that time. Even Elihu Root, in his appeals for ship subsidies,³ declared that brain, brawn and ability on the sea were at a discount, that all that mattered was what nation poured out the most money in aid of private shipping enterprises—to it the mastery of the seas would go. At that time, he said, other nations were spending forty million dollars to keep their ships going. Hence, he insisted, we must follow their example and begin to bleed our Treasury for private profit.

Neither Mr. Root nor any other subsidy advocate at that time went out of his way to point out the fact that Congress, itself, acknowledged the evil effect of the tariff when it provided that under our laws our shipyards may construct vessels for foreign owners without paying duties on the materials they use, since the product of their labors is not to be utilized in the United States but immediately to be sent overseas and put under another flag. There was a striking case of this when we constructed two battleships for the Argentine navy, for which we underbid our British competitors by no less than \$900,000. Naturally, the British fumed and talked about a "conspiracy of American iron and steel interests" to rob them of this opportunity to build for the Argentine. There was nothing in that charge. The simple fact was that because of the laws cited, our successful shipyard was able to build for the Argentine at a cost much less than that to which the owners would have been put had they been building the same ships for the United States Navy! In other words, because of the tariffs it has placed on the

³See his address to the New York Chamber of Commerce in November, 1909.

materials used in ships built for Americans, our Government has mulcted itself of millions upon millions of dollars for the benefit of shipbuilders—a situation surely worthy of the attention of our humorists. Would any other parliament not have seen the absurdity of this and realized how it insured the creation of a merchant marine which could not stand on its own feet but must be a constant beggar at the door of the national legislature?

The truth is that the greater our foreign trade, the greater the opportunities for our ships to take advantage of our export and import business, provided that they are efficiently and honestly managed, speedy and adapted to the various trades they seek to serve, and keen to stand or fall on their own merits. Dependence upon government aid inevitably means inefficiency, slackness and a failure to keep abreast of nautical developments. Every tariff which limits commerce with other countries is a deadly blow to our shipping. Given unhampered foreign trade and an unshackled demand for American products, an able American merchant marine will not need to be told by any bureaucratic admiral how large a proportion of our goods it will, or should, carry. It may go well above 50 per cent in a free and fair ocean competition.

It cannot be denied, however, that the victory won by the maritime unions in June, 1946, in introducing the eight-hour day on our ships and considerably raising wages, will handicap our merchant marine. Not only is the difference between American wage-costs and those of foreign vessels increased thereby, the treating of life at sea on a par with laboring conditions on shore is a radical and questionable departure, bound to place extra burdens upon the American shipowner. From time immemorial sailors have been ready to "turn out" whenever tempests or other causes required it. Now that the modern ship is a comfortable steel transport

wholly mechanized, emergencies are few and far between. Still it seems entirely uncalled for to put a definite limit on the working hours at sea. The sailor can certainly not use his extra hours to visit his family or go to the movies or otherwise amuse himself. He can merely rest in his quarters for, let us say, sixteen hours a day until he reaches port.

Today, our merchant marine situation is such that it constitutes a severe drain upon the Treasury which bids fair to be permanent. It has even come to pass that early in 1947 the operators of coastal shipping, which is by law entirely free from any foreign competition, refused to take back their fleets despite an extraordinary offer from the Maritime Commission of a free annual gift of about \$150,000 for each Victory Ship in operation and about \$130,000 for other cargo carriers. Even with this government largesse, the operators declared that they could see no surplus earnings ahead until the postwar reconstruction of industry was at an end and with it the scarcity of consumer goods, and that, therefore, the Treasury must assure to them profits for their stockholders.

Under the circumstances, the outlook for the taxpayers is an unhappy one. There seems for the present to be no choice between heavy subsidies and government ownership, which no American believers in free enterprise desire. The question, therefore, is whether, because of the possibility of another world war and for reasons of prestige, this country must continue to pay out millions to keep a merchant marine afloat. The issue is further complicated by the nationalization of various fleets, the Italian, the Russian, the Swiss, the Egyptian, etc., and by the rush of small nations to possess their own ships, however few, to say nothing of the world-wide subsidies. So far as the United States is concerned some things are clear: There should be no tariffs whatever on shipbuilding materials imported into this country, and the more all tariffs are lowered so that there will be a

greater expansion of our export trade, the greater will be the possibility of our having a merchant marine capable of standing on its own feet and not being a mere ward of the Treasury.