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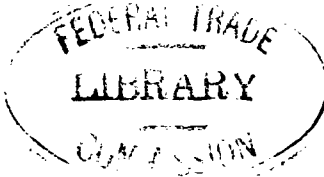
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EDWARD N. HURLEY

in a letter to

PRESIDENT COOLIDGE

Outlines Further Reasons for Supporting  
The President's Plan  
For a Privately-owned Merchant Marine



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## MR. HURLEY'S LETTER

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January  
Twenty-eight  
1928

To the Honorable Calvin Coolidge,  
The White House,  
Washington, D. C.

Dear Mr. President:—

Your shipping policy as outlined in your Message to Congress, of December 6, 1927, and in your recent statements to the press, is so sound and constructive in the public interest that I am venturing, as an interested business man, to proffer some further suggestions that I hope may prove helpful.

Our government for eight years has been operating a large fleet of ships, at a big financial loss. This failure, while in part due to serious post-war problems, nevertheless is a demonstration of the government's inability to operate ships successfully, and emphasizes that your policy of private ownership and management should be vigorously supported.

In my letter of November 8th last, to the Shipping Board, I referred to the importance of Congress' granting reasonable concessions to offset the higher cost of building ships in American yards in comparison with the cost of foreign yards. Such concessions would place the United States on a parity with other nations in the matter of fixed charges against capital invested in ships engaged in overseas commerce.

### **Intercoastal Freight Revenue Insufficient**

I understand that the freight revenue received at present from intercoastal business is not sufficient to provide a fair net-average annual return on the capital invested in these ships. One of the reasons is that the methods now employed for classifying commodities are unscientific. Another reason is that the Conference agreements now in force to regulate rates in coastwise trade

and approved by the Shipping Board under the Act of 1920, are being constantly interfered with by non-conference ships which are cutting the agreed rates. Participation in a Conference is purely voluntary. If a member of the Conference wishes to cut rates, he may do so, but if he does he thereby withdraws from the Conference and becomes a non-conference operator.

This is a discouraging situation, and some co-operative steps should be taken to remedy it. We have a great fleet of about 150 ships—probably a surplus of twenty-five more than is necessary to move the cargo offered—all owned and managed by Americans engaged in interstate traffic, representing millions of dollars, and with only a conference or gentleman's agreement to maintain rates which are being subjected to constant attack by non-conference ships.

Only ships under the American flag are engaged in this service, so competition from foreign vessels cannot be cited as a reason why they are not operating on a profitable basis.

### Remedy Lies in Private Ownership

There is only one way in which a merchant marine can be maintained. That is by its receiving sufficient revenue over and above the cost of operation, to pay a fair return on the capital invested and to provide the necessary depreciation for replacements.

If private capital is invested in American ships, there is no question but that they will be more efficiently managed than if government-owned. The unsatisfactory conditions that now exist regarding the class of cargo carried by our ships and the low freight revenue received for the service must be changed before we can maintain a competitive position on the seven seas. Government-owned ships now in service are not improving the situation. Private ownership can and must solve it through closer co-operation and the adoption of better business methods.

### Let the I. C. C. Establish Rates

Ship owners may well study the railroad situation of today and contrast it with the chaotic era before the Interstate Commerce Commission was vested with the power to fix and regulate freight rates. If the commission had authority to regulate intercoastal rates, it could easily assist in wiping out many present evils and help to place this branch of shipping on a profitable basis. For instance, if the Commission had the rate-making power and found it necessary to raise the present rates only forty cents a ton, or two cents on every 100 pounds, on the 5,884,272 tons of freight (eastbound and westbound) that went through the Panama Canal in 1926, that raise would yield an increase (over the present net annual revenue) amounting to two million three hundred and fifty-three thousand seven hundred and eighty cents (\$2,353,708.80). That sum would pay five per cent interest on forty-seven million seventy-four thousand dollars (\$47,074,000.00) invested in ships.

If it were found by the Interstate Commerce Commission that the rates on some commodities were too high and on others too low, a re-adjustment could be made along the present line of making railroad rates, so that the rates would be equitable and just to all concerned.

The ships in intercoastal trade are interstate carriers, and they should be regarded as being in the same rate category with the railroads. Since the problems to be worked out by the shipping lines are very similar to railroad problems they are susceptible of solution in much the same manner as are the many intricate questions incident to railroading.

The Interstate Commerce Commission now controls rates in coastwise shipping on the Atlantic and Pacific, where railroads connect with and own coastwise ship lines. The service they render is satisfactory to both shipper and carrier. Their experience with the making of rates for

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coastwise business would be helpful if legislation were to extend their authority so as to permit them to co-operate in the official regulation of intercoastal rates.

### Survey is Needed

If five men schooled in rate structure were selected by you, Mr. President, to make a survey of intercoastal rates and to submit their recommendations, their report would be most helpful in determining the advisability of the government's participating in controlling intercoastal rates. One rate expert might be chosen from the Interstate Commerce Commission, one might be selected from railroad Classification Committees, two from the shipping interests engaged in this service, and one from the Shipping Board.

When we can show favorable balance sheets, American shipping securities will be purchased by bankers and sold to the investing public; and the industry as a whole will be placed on a sound basis.

Foreign ship owners are borrowing millions of dollars of American capital with which to build and operate ships in competition with ours.

Recently the North German Lloyd Steamship Company sold in New York twenty million dollars (\$20,000,000) worth of twenty-year six-percent, sinking-fund gold bonds; and a very creditable statement regarding earnings was published in the newspapers, which showed the remarkable progress that company has made since the war. The statement mentioned that on the basis of present assessments it is estimated that the individual Dawes Plan Debentures which would have to be issued by the company to meet German reparations would not exceed three million five hundred thousand dollars (\$3,500,000), in respect of which the maximum annual charge covering their 123 overseas passenger and freight ships would be two hundred and ten thousand dollars (\$210,000). **With this additional government burden and the regular fixed charges,**

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the directors stated that they expected earnings to continue to grow steadily. This Company is privately owned and operated.

### **Better Business Methods Needed**

Shipping met the post-war problems and underwent a reorganization similar to that which American business generally experienced before and following the war. Many American manufacturers operated unprofitably up to 1914, chiefly because competitors who did not know the costs of their products sold their wares at a loss, thus not only demoralizing the particular industry of which they were a part, but injuring business generally. By organizing trade associations and standardizing methods of cost accounting, depreciation, et cetera, they now know their costs and are selling their goods at a price fair to the consumer and yielding a fair profit to the manufacturer. We also now have many efficient American-owned and privately operated fleets in overseas and intercoastal trade, and real American leaders in the shipping world who are demonstrating their ability to operate successfully a merchant marine.

After fifty years of indifference, we are now trying to regain our former maritime position, with war-built ships (some of which are obsolete), new crews, new organizations and new managers. After this long period of inactivity and the unusual post-war conditions, the various problems cannot be settled over-night:

All shipping men should seriously endeavor to do their full share in developing more efficient organizations, both on land and sea. There is always room for improving the management, in shipping as well as in manufacturing; and every effort, individually and through shipping associations, should be made so that it will be obvious to Congress that any assistance received from the government in reducing the capital cost of ships will not cause vessel owners to relax

their efforts to reduce operating costs and otherwise place American shipping in the category of efficiently managed industrial enterprises.

It is a remarkable fact that today less progress is manifest in improving the efficiency of ship operation throughout the world than in any other branch of industry. While there are hundreds of efficiency expert organizations in nearly every line of manufacturing, there is not one exclusively or even specially devoted to the study of cost-reduction in ship operation.

It may be true that the cost of operating government-owned ships, now under the control of the Shipping Board, far exceeds the cost of operating privately-owned ships. Be that as it may, the Shipping Board will doubtless lay before Congress the actual facts, and Congress will act in the light of those facts.

### **How Can Overseas Transportation Be Sold At a Profit?**

Regulating of overseas freight rates in world commerce, because of the many international problems involved, always will be more or less complicated.

The success or failure of a ship or ships in any trade depends upon the revenue received and upon efficient private management.

The small item of seamen's wages, which is discussed so seriously by the public and by some shipping men, is not a menace to American shipping. Wages amount to only about ten percent of the total cost of operating a ship. If shipping men will maintain their conference rates; or, if they are not in a conference, if they will add a few cents a ton, a single voyage would absorb a year's differential in labor cost on a ship flying the American flag.

No other form of business enterprise in the world of commerce is so delicately susceptible to influence by the laws of supply and demand as

is overseas shipping. A slight variation in the amount of the total world tonnage in service may readily cause fluctuations of from ten to twenty-five percent in commodity rates in certain trade movements.

### Vicious Competitive Practices

Ocean carriers as well as railroads are unable to operate successfully in unrestrained competition with each other. The disastrous results caused by greatly over-tonnaged trade routes in the later years of the past century forced steamship owners to form the so-called conferences and pooling agreements in every important "world trade route." Before the time of the Conference agreements, steamship companies paid secret rebates and granted other special privileges to powerful shippers, to the detriment of the smaller shippers. "Fighting ships" were held in readiness to discourage would-be competitors who berthed tramp ships at non-conference rates. These and other vicious practices resulted in the initiation of legislation at Washington which was designed to outlaw all conference and rate agreements; but the world war intervened to halt its enactment. The British Government, through its Board of Trade, had conducted a thorough and scientific inquiry into conference affairs, and gave such practices a clean bill of health, recognizing the economic necessity for some such control of competitive conditions.

Not until American war-built fleets were forced to contend for business against the superfluity of tonnage available throughout the world, with bottoms to carry **twice the amount** of cargo actually available, was Congress convinced of the necessity of legalizing the general principle behind the formation of conference and rate agreements which were designed to obviate ruinous competition. But no such direct control of rate-making in overseas trade as that maintained over rail traffic is either expedient or practicable.



### Incongruities That Mean Losses

Today the merchant fleets of the world are confronted with a situation which in any other business would be considered absurd in the extreme. For instance, a steamer finds itself idle in New York Harbor, with a cargo of grain available at Buenos Aires for transport to London. She must either sail 7,000 miles in ballast or take on a cargo of coal at a rate which actually shows a loss of fifty percent of the rate. Common sense indicates that no matter what is to be the ship's business after the vessel reaches Buenos Aires, the owner should receive at least for his coal cargo a rate sufficient to show a slight margin of profit. A grain carrier from Oregon to London must cut his rate one-half cent per bushel to enable the seller to compete with the shipper of wheat from Australia. In order to enable American chemical manufacturers to compete with the German producer who routes his chemicals all water from Hamburg to San Francisco, the Intercoastal Conference Lines must cut their rate on soda ash, from the Atlantic to the Pacific Seaboard, to a non-profitable basis.

One of the greatest disadvantages under which American freight tonnage operates in international trade is our lack of knowledge of the facts essential to successful trading as related to bulk cargo movements all over the world. At least ninety percent of the full cargo chartering of the world is directly controlled in London—not because the tonnage is all controlled there, but because the traders in London keep their sensitive finger-tips on the pulse of world markets in a manner entirely foreign to anything known in America. No purely domestic plan, designed only to stimulate American shipping, but which would conflict with this intelligent and economical regime in the marketing of raw products and bulk commodities at low rates, would be effective or helpful to us. It would do us vastly

more harm than good. It would disturb our operations in world industry and commerce.

### Railroads Can Help

Ocean transportation originates at so many points of the world that **absolute control** of overseas rates is impossible. Rates on American shipments from railroad points might be fixed at the source. The railroads are in a position to direct or route a substantial part of the traffic originating on their own lines to foreign ports by the issuance of through bills of lading, thereby controlling shipments to the ultimate destinations. Whenever this control is relinquished at the seaboards, however, the ocean power of rate-making frequently runs rampant in ruinous competition.

Through their Classification Committees, the railroads could, if asked, also be quite helpful toward the standardization and stabilization of rates on overseas transportation by applying their knowledge of the classification of goods into limited groups or classes.

Thousands of different commodities are carried by railroads and ships. These articles differ greatly in value, density, quality and nature. These variations affect the ability of the articles to bear the freight rates and tend to account for variations in the cost of handling the articles. These and other factors must be reflected in freight rates. It is obviously impracticable to publish commodity rates on every article, between all the thousands of shipping and receiving points, or to make uniform rates on all articles. The railroads, through their Classification Committees, group all commodities into a limited number of classes and make rates by **classes** instead of by particular commodities. **Exceptional cases are handled by removing the application of the class rates** on certain commodities between particular points where **lower rates** are needed to move the traffic, through the use of

exceptions to classifications, and by general and specific commodity tariffs.

In our transoceanic trade in 1926 there were 293 Shipping Board vessels and 170 vessels privately owned. These 463 American-flag ships carried 13,396,235 tons of cargo at the extremely low average rate of six dollars and forty-three cents (\$6.43) per ton. This freight consisted to a large extent of bulk goods or a low-paying class of commodities, instead of higher class merchandise that commands fast service with higher rates. That was because of our lack of more modern, competitive types of ships. Infrequent sailings likewise were in a measure responsible for our being forced to carry only the low-priced cargoes.

#### Cargo Liners vs. Tramp Ships

Unfortunately our cargo liners on established routes are receiving only the same average rate per ton as are the tramp vessels engaged in handling bulk cargoes. That rate is too low. Our cargo liners should carry a larger proportion of higher class goods, at higher rates, and the tramp vessels should carry the bulk cargoes.

In the trans-Atlantic trade there are one million (1,000,000) tons transported annually, at rates varying from twenty-five to eighty dollars (\$25.00 to \$80.00) per ton. This represents of course the highest class cargo on the high seas. Most of this tonnage goes to foreign vessels.

If say twenty cents a ton or one cent on each one hundred pounds (100) were added to the six dollars and forty-three cents (\$6.43) per ton, the amount of tonnage carried in American ships in 1926 (13,396,235 tons) would yield additional revenue of two million six hundred and seventy-nine thousand two hundred and forty-seven dollars (\$2,679,247.00). That increase would be equal to five percent yearly interest on fifty-three million five hundred and eighty-four thousand nine hundred and forty dollars (\$53,584,940.00).

The necessity of scientific classification of commodities, so far as practicable, and of equalizing and stabilizing rates for overseas shipments must be admitted when one realizes that an average increase of only a few cents per hundred pounds would make the difference between failure and success for ship owners. That important work would require a careful joint survey and joint action by the several Conference groups now dealing with world shipping rates.

But it will be difficult to get for our ships a higher-paying class of freight until we can give better and faster service and our merchant marine policy is settled and all our vessels are privately owned and operated.

### Shall Ships Be Scrapped?

The distinguished shipping authority, Mr. Emil Lofgren of Stockholm, recently gave to the London press an interesting statement which was presented by him to the members of the International and Baltic Maritime Conference. He recommended the scrapping of 2,000 ships now flying the various European flags. Mr. Lofgren recalls that the present surplus of tonnage has arisen through various circumstances caused by the world war. It is only right, he contends, that extra-ordinary measures should be taken to bring the amount of tonnage in service back to normal proportions with relation to the demand for ship transportation. The present amount of cargo available for transport in Europe is eight and one-half percent less than that available in 1913, he estimates. It is his suggestion that all European owners should come to a mutual agreement to scrap perhaps ten percent of each country's tonnage, in order to remove the old, uneconomical steamers which now are spoiling the freight market. He points out that such a reduction would in the course of a year make available over one hundred million (100,000,000) tons of additional cargo for the ships remaining in service.

It is very evident from Mr. Lofgren's statement that the leaders in international shipping abroad recognize the vital necessity of closer cooperation between the different Conference groups as it pertains to tonnage and rates.

If American shipping were in the hands of American citizens, and privately-owned, representatives of all our overseas tonnage could meet in conference with foreign ship-operators, to devise ways and means by which rates could be equalized and stabilized on a basis equitable to shipper and carrier. This would be most helpful in making possible the successful operation of American ships. Neither the managers of government-owned ships nor the Shipping Board can consistently take part in such a conference with private shipping interests without the danger of eventually involving our government in the controversial questions which inevitably would arise in the keen rivalry of an international business.

### **Disturbing Aspects of Government Ownership**

There is some sentiment in Congress in favor of government ownership and operation of our shipping. The principals in international shipping conferences and associations discuss and act on many important problems, such as rates for passenger and freight service to different countries, and other questions that have international aspects. How could our government shipping representatives take part in such conferences in other than a consulting capacity? They might agree temporarily on a given policy on rates, service, et cetera—but always with the risk of having their agreements rejected by our government.

Our government enforces the law against unfair competition in industry, believing that the public interest is better served when competitors are fair to each other. No matter how fair our government might try to be in international

shipping, there always would be a latent sentiment that a government with great financial resources should not competitively enter the field against private capital and private ownership.

I believe that if our ambassadors, consuls and commercial attaches were to express their private opinions, they would strongly urge that solely in the interest of our foreign trade the government should retire from the shipping business and allow our merchant marine to be privately owned and operated.

### **Rate-Cutting Would Demoralize Shipping**

Should the government decide to continue in the shipping business, and expand and control a large fleet of overseas ships, with the ever-present uncertainty of the rate-structure, it might have to cut rates (publicly or privately) to meet the competition of foreign ships. That would seriously affect the government's shipping income and would likely demoralize world shipping.

Our laws prohibit railroads and coastwise ships from cutting rates to obtain business without permission from the Interstate Commerce Commission. Were the government to establish "fighting rates" on overseas business, while at the same time prohibiting under severe penalties similar action at home, its position, to say the least, would be rather inconsistent.

The war forced us to build all kinds of ships, for war purposes, at war prices. Since the war we have sold a number of vessels, and we still have a number tied up, not in operation.

It is now agreed that to meet foreign competitive service and to balance our fleet, we must have faster freight and passenger ships. Some of our people contend that the government should not only continue in the shipping business, but should also build new, modern vessels and operate permanently a large fleet in competi-

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tion with American and foreign privately-owned ships.

We have today forceful leaders in shipping, railroading and business who, if encouraged by slight concessions from Congress in the way of lending money at a low rate of interest, could build modern vessels, in harmony with your views, and establish on a sound and profitable basis a private American merchant marine, able to compete successfully in the carrying trade of the world.

Very respectfully yours,

Edward M. Hurley