

1930 - 1936

FSTC: ~~Correspondence~~ of E. B. Gaston, Inquiries: B-B1

Fairhope

10517-b

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Feb. 4, 1936.

Rev. S.W. Bail,
Arcadia, Fla.

Dear Sir:-

At the suggestion of Mrs. Nugent just arrived from Arcadia, I am sending you some printed matter relative to our little city, with which she seems very favorably impressed--as of course, it seems to us she should be.

It is not only a thriving business and residence community but there has been carried on here for more than for 40 years, a very interesting experiment in the application the principle of taking land values (exclusive of improvements) for public revenue, which, indeed, was the major purpose for which the community was founded, in 1894.

Should any further information be desired we would be glad to furnish the same, on request.

Yours very truly,

April 28, 1933.

Mrs. H.D. Bailey,
Roggen, Colorado.

Dear Madam:-

Yours of 21st was duly received, and I was glad that the pleasant memories of Fairhope, on the part of yourself, your father and mother, make you consider a possible move here. I am sure if you liked Fairhope before you will like it much more now, for the passing years have brought many improvements and have not marred the friendly, altruistic spirit of her people.

My dear sister, in whose house you then had rooms, has passed to the beyond, her death occurring Oct 16th, last year. She was aged 87 years, 7 months and seven days.

We think we are well advised that our climate averages about as fine as is to be found, and our schools rank very high in work performed among schools of the nation and have been immensely improved in the last few years; though sadly hampered just now for lack of funds which seems to be a chronic complaint in many states.

Out State Agricultural and Mechanical School a very fine school, is at Auburn, about 250 miles from Fairhope. There are young men from here in attendance at every session. There are no agricultural courses in our High School. But we have a newly established State Agricultural and Horticultural Experiment Station, coming right up to the town boundary. This whole section of the state was scoured by the soil experts when selecting a site, which speaks well for the land in this vicinity.

Our Single Tax Colony has land to rent for from \$100 to \$3.50 an acre, under its plan, which is pretty well set forth in our "Application for land" copy of which is enclosed. Land can be purchased within three or four miles of town for \$25 an acre and upward. Our plan relieves one of the necessity of investing in land and the rent includes taxes upon land, improvements and personal property.

As to the opening for a barber, as we have 4, operating three shops did have another, but he went back to Mobile from whence he came. There might be an opening at Daphne 6 miles away, but I am not advised.

I am sending you a late copy of the Fairhope Courier and a pamphlet, which may interest you. Hoping to hear more from you,
Yours very sincerely,

Hoggen, Colorado, April 21, 1933

Mr. Ernest Garner,
Fairhope, Alabama.

My dear Mr. Garner:

Some years ago I spent a

winter in Fairhope with my father and mother,
Mr. & Mrs. F. C. Olinde. We lived in your sister's
house & took our meals at Whittier Hall.

Since then I have been living in Colorado. Now
my husband and I would like to make a
change and we have been talking about Fairhope.
We have had folders from your Chamber of
Commerce and of course everything sounds very
attractive, but when I saw your name in
one of them and remembered that I remembered
you very pleasantly, my husband asked me
if I would not write to you. We want first
hand information regarding climate and schools.
We have two boys - both 4-6 members - and we
would like to have a place where they can
have sheep and dairy cows so we want to know
about the price of land and the pasturage.

I spoke of climate because we are a little afraid that if it is too hot in the summer, I may not be able to stand it. The folders speak well of the schools, but we have heard that schools in the south are not as good as they might be. Our older boy is fifteen and wants to go to agricultural college when he finishes high school. How far is that from Fairhope? Are there any agricultural courses offered by the Fairhope High School.

Finally, Mr. Bailey is a barber by trade and has always kept in practice. He would like to know whether there is any chance of his getting a shop in Fairhope or in some town near Fairhope.

Yours very truly,

Sophia Olmsted Bailey

(Mrs H. D. Bailey)

June 23, 1935

Edwin Baird, Editor & Pub.
Real America,
Chicago, Ill.

Dear Mr. Baird:-

Permit me to express my appreciation of the excellent manner in which Real America, presented two efforts to advance the Single Tax cause; one by Mr. Theodore L. Moritz, through amendment of the taxation laws at Washibgton, and the other, that at wairhope, to do so by self-selected, self-starting program group who free land for their purpose by buying it and then administering it as if it were the common property of those locating upon it.

I anticipate a number of inquiries from people interested by Real America, for further information and hope you will have call for a number of extra copies.

Yours very truly,

Secretary.

Nov. 23, 1931

Mr. Frank E. Baker,
Montello, Mass.

Dear Mr. Baker:-

Replying to yours of 17th I am pleased to inform you that the Colony founded by the Fairhope Industrail Association, of which you have read in Hind's American Communities is not only still in existence, but "going strong" with no change in principle, but reincorporated under the laws of Alabama as the Fairhope Single Tax Corporation.

I am enclosing you some rather fragmentary literature including "Quarter Centennial History" which brings us down from the beginning to 1920; and some other matter, including as the latest, a letter gotten out for distribution at the recent Henry George Congress held in Baltimore last month.

The Fairhope Couræer, which was published during early years as a propaganda sheet for the Colony by the organization--but always at a loss, has been for years my personal property, but devoted to the same ideals.

I am mailing you a copy of so and would be very glad to have your subscription.

Hoping that I have given you the information desired, and to hear further from you, I am,

Yours very sincerely

Montello, Mo.,
Oct. Nov. 17, 1931.

Sec. Fairhope Industrial Assoc.,
Fairhope, Ala.

Dear Sir: could you inform
me of the present numbers
and disposition (distribution)
of the Fairhope Industrial
Association? Do you at
present publish any litera-
ture? This inquiry is prompt-
ed by the very illuminating
article in W. A. Hinds's
"American Communities".

Respectfully,
Frank E. Baker.

Oct. 17, 1930.

J.G. Baker, Sec.
Sheffield-Muscle Shoals
Chamber of Commerce,
Sheffield, Ala.

Dear Mr. Baker:-

I was pleased to receive your interesting communication of 11th, since receipt of which Mr. Bishop has returned from his trip north and I have also been privileged to read a copy of his radio address on Fairhope, though no copy of the Federation News with his speech has been received.

I am sorry that we have not at the present time in one piece of literature the information about Fairhope, which one unacquainted with our theory and plans would need to get the same fairly before him. However, I am sending you some things which will help; including copy of our lease and application, which is a part of the same; copy of "Quarter Centennial History," which goes back to the beginning of the effort; a little folder "Whose Land?" which presents in story form something of our view of the land question and in the closing paragraph makes brief explanation of the Colony plan; in addition to which I am glad to include a condensation of Henry George's great work, "Progress and Poverty" which is the "Bible" of the movement; and last but by no means least, a little but mighty folder, entitled "Causes of Business Depression" written by Mr. George in 1884, (just the year in which Fairhope was founded) and which is just as true today as when it was written. Am also adding a copy of reprint by local Chamber of Commerce of an article appearing in the last February number of the Employee Magazine, of the L. & N. R.R., on "The It County of Alabama" which has considerable regarding Fairhope from an outside view; and a copy of reprint of a page appearing in the Birmingham News, of Sunday, Feb. 27, 1929. Trust if you find time to go through this detached but related matter you will find same interesting, and file it away, where an inquirer about Alabama's Single Tax Colony may be given access to it.

As to your inquiries about persons whose names you have, Mr. Henry Tideman is a zealous Chicago Singletaxer, with a splendid family devoted to his ideals, Mr. L.O. Bishop is an old Clinton, Ind. Newspaper man and job printer, now making his home here; Emil Knips, a former Minnesotan, now calling Fairhope his home; John Saxe, J.A. Patterson, E.C. Wolcott, M.F. Northrop and E.N. Ferrin, are Fairhope citizens, who, with myself and Knips, attended the Public Ownership Conference at Sheffield last November, Northrop our mayor, Ferrin since dead. Mr. McLean is still resident here,

brilliant writer and speaker, former editor of the Arena, New York, and the author of a work called "Spritual Economics" selling at 75 cents.

In reagrd to Muscle Shoals I am strongly of the hope that the progressives in the next Congress, (representatives) both Democratic and Republican, will be enough augmented in the coming election, that favorable action of the House on the Norris bill can be secured.

Considering that not only does the water power belong to the people but that so much of the ~~people's~~ peoples money has been expended in development, it seems to me that nothing should be considered but having the government retain full control and administration. I have remarked a number of times in my paper, that the people about the Shoals are so eager to have the plants put to work, that they are ready to take hold of and back up almost any action which looks to immediate results, overlooking the principles which should be applied to the question.

I am going to send you my paper for the next four months anyway with my compliments.

Will be glad to hear from you at any time.

Very Sincerely Yours,

Secretary.

JOHN J. NYHOFF
PRESIDENT

J. B. LAGOMARSINO
FIRST VICE-PRESIDENT

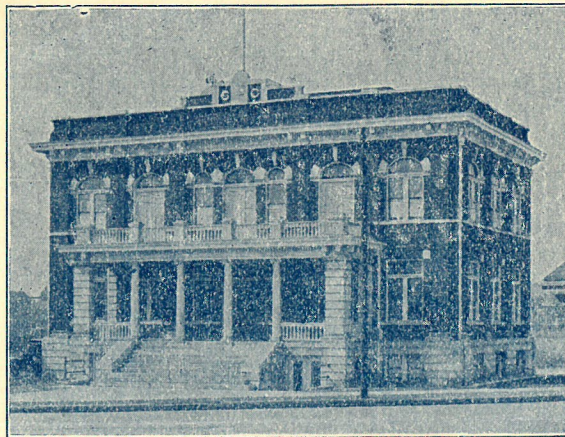
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Sheffield-Muscle Shoals **Chamber of Commerce**

Sheffield-Muscle Shoals—the Queen Cities of the Muscle Shoals District—The American Ruhr—
Where Nature's Mineral Wealth and Hydro-Electric Power offer opportunity and prosperity to millions.

SHEFFIELD, ALABAMA
October 11, 1930.

Honorable E. B. Gaston, Secretary
c/o Fairhope Courier,
Fairhope, Alabama,
(Baldwin County)

Dear Sir:-

I have read with a great deal of interest the fine article on Page 2 of the Chicago Federation Labor News, of October 11, 1930, which article is entitled "Fairhope, Alabama The World's Pioneer Single Tax Town, An Existing Example of Single Tax Practicability", which was an address prepared by L. O. Bishop of Fairhope, Alabama, and directed by Henry Tydman over WCFL Radio Station, Chicago, Illinois.

Would be pleased to know as to who is Mr. Henry Tydman, also would like to be able to place the identity of the following: L. O. Bishop, John Emery McLean, Mayor of Fairhope, Emil Knips, H. N. Ferrin, John Saxe of C. of C., J. A. Patterson, M. F. Northrop and E. C. Wolcott, all of Fairhope. This list of names as appears on our mailing list were placed there through different sources. Some of these gentlemen we believe attended the Public Ownership Convention held here last Winter. We would like to know about them further and their work, also would like to have the informative literature about Fairhope, the Single Tax proposition and the ninety-nine year lease features, and other Henry George information, which the Federation News article stated could be had by addressing our inquiry and request to you.

The writer recalls some small data that we received from a Mr. Mac Lean there, and we will go through our files in an effort to locate the booklet, but during these times of ex-

treme stress and economic depression throughout the Country, caused by the Powers that be, we wish to have our files replenished and fortified by whatever good boiled-down data that you may be able to send us, now and from time to time, for which we shall be pleased to pay you reasonable charges. You may also include the Fairhope Courier to be sent to us, as the writer recalls having seen only one or two issues of your good paper.

At this time, and in this connection, would like to have you write us what you think of the present status of the Muscle Shoals Project, and as to what your ideas are regarding what definite disposition and Legislation may be had on the subject, if any, during next Congress convening December 4th. We here locally being right in the thick of the fight, sometimes I think are so close to the project in question that we may lose sight of some bright idea that may be had from an impartial view from the side-lines.

Any suggestions or confidential advice which you good people could offer, in the way of cooperation, none of this being for publication, we should greatly appreciate hearing from you along these lines. With our best wishes, we are,

Very cordially yours,

SHEFFIELD-MUSCLE SHOALS CHAMBER OF COMMERCE,


J. G. Baker, Secretary.

JGB:JS.

Bald Co. Home

Foley, Alabama
June 10, 1935.

Editor, Fairhope Courier
Fairhope, Ala.

My Dear Sir,

You no doubt remember the effort started to build a chapel and Hospital at the Baldwin County Home.

It has proven a very costly effort to visit every person who should or could give toward this much needed project, by a personal visitation, so we are asking each news paper in the County to put on a four weeks DRIVE through its columns, hoping and trusting that this may so reach, and have such effect that the money will come willingly and quickly.

This money is to be deposited in the nearest bank to where the respective Papers do their banking, to the credit of the Baldwin County Hospital Fund, and I am sending you a copy of the first SET UP, such as each paper is given in the county: and I do ask that you give the necessary space in your paper, beginning with the next issue.

I should like to follow this up each week for four weeks or a bit longer if necessary providing that the interest is keen enough to warrant the effort.

I should like that you publish the amount recieved each week, thus making it a competition between the papers and the giving public.

Realizing that you are acquainted with this effort, I should like to ask that you make any changes each week as seems good to do or add with any other item that will increase the competition and make it KEEN.

Instead of trying to build a Two Thousand Dollar building as has been suggested by some, we are content to build a Twelve Hundred Dollar building, thus making it easier to reach the objective.

Looking forward to an interesting and profitable Campaign, to the blessing of the aged in the Old Peoples Home, and thanking you in advance for this effort and cooperation, I Am Sincerely Yours,

U. G. Gilbert

U.G. Gilbert
Comnetteman working under instruction
of Mr. Joyner, Mgr. of The Home.

May 23, 1930

L.L. Balch,
188-26 119th Ave.,
St. Albans, N.Y.

Dear Sir:-

Sorry to have neglected somewhat your favor of 4/20, requesting information about our Colony. I am taking pleasure in sending you today copy of last issue of Fairhope C Courier, copy of constitution and lease, copy of Chamber of Commerce reproduction of "The 'It' County of Baldwin, and some other matter which should help you to a fair understanding of conditions here.

Revised census figures, place Fairhope as the largest town in the county, we having run right up on the county seat Bay Minette, which is on the main line of the L. & N. R.R. and at the head of a branch line running about 40 miles south and tapping the better part of this wonderful county.

I wish I had something more comprehensive to send you under single cover but late demands have exhausted our last edition of such a publication.

Hoping the matter sent will be of far interest and particularly recommending personal investigation, I am

Yours very sincerely

Secretary.

St. Albans, N. Y. 4/20

Fairhope Single Tax Corp.
Fairhope, Ala.

Dear Sir

I would appreciate a late edition of prospectus and any other information you can furnish me with about the community of Fairhope. Some friends of mine have been telling me what a delightful place it is to live in. I use to ~~be~~ much interested in Henry George and his single tax and was an ardent supporter of his at the time of his sudden death while running for mayor of N. Y. City.

I am now retired and my wife and I are looking for some place where the climate

is mild - living moderate and
neighbors congenial.

Thanking you for any
information you can furnish
me I remain.

Yours very truly

L. L. Balch

188-26 . 119th Ave

St. Albans, N.Y.

45 Prospect Place Prospect Tower Apt 620. New York City
(Tudor City) Nov 2, 1935

The Fair Hope Courier,
Fairhope Ala.

Gentlemen:- My son Prof James L Baldwin
is Tax Research Director for the National Bureau of
Property Administration. The Bureau has organized
and is operating Tax Service associations in the cities of
Chicago New York Baltimore Philadelphia and
Newark N.J. with ^{other} cities and States organizing for the relief ^{of Tax payers} of Tax payers.
I was in Mobile and Fairhope in 1921. and met
Mr Gaston then Editor and was much interested in your
colony plans and methods and hope sometime to return
Mr T. O. King of Mobile has sent me your Booklet
"Fairhope Facts of Interest" which I've read from "Kismet to Kismet"
There are two subjects developed in your experiment.
at Fairhope that interests me and my son, James keenly
and I wish you you would send us all available data
relating to them. ^{Points apply Education Reform} They are: The Single Tax Plan as operated
in your colony - its difficulties in coordinating with with Tax
officials of Baldwin County and Alabama and details of operation
and results thereunder on different types of property. If you are
interested I will gladly send you articles by Prof Baldwin
on the City Manager plan and other topics of Civic Reform
I would also like to have all information possible on the
School of Organic Education further than that given in
your Booklet "Facts of Interest". Thanking you in advance
I am Very Truly Yours
Ernest Baldwin.

Nov. 16, 1935.

Enos Baldwin,
45 Prospect Place
Prospect Tower, Apt. 620,
New York City.

Dear Sir:-

Yours of Nov. 2, 1935, was received and read with interest and should have been replied to sooner. I note your visit here in 1921 and the interest awakened in yourself and your son, in what we are doing here.

While suffering as all places have from generally demoralized conditions, state, national and international, as well as local, the progress of our town is a matter of comment by all who see.

I think you may have had a copy of brief history of the Colony, but am mailing a copy, with some other matter. Note particularly single sheet "Interesting Comparisons" also financial report for 1934. Do not recall "THE" booklet "Facts of Interest." Believe this out of print.

Our Colony management gets along very well, as a rule, with local civil authorities, town, and county. Our town council is composed of young men, half or more of whom were born here. We had a visit recently from the Mayor of Pittsburgh, McNair, Singletaxer, and gave him a dinner at which two of the councilmen, ~~xxx~~ and mayor, made talks in which they emphasized the cordial relations between the Town and Colony and assigned as large reason, the attitude of the Colony with regard to land; deeming it a common heritage, of which the colony administrators were only temporarily in charge they were ready to grant sites for parks, golf course, public buildings, widening streets, etc, which spirit had been of great advantage to the town.

It seems that the work in which your son is engaged should be of great interest and value. I would like to know more of it.

Yours most sincerely,

Secretary.

(Copy)

Fairhope, Ala., Aug. 11, 1933

Mrs. E.B. Barghoorn,
45 West Babbitt St.,
Dayton, Ohio.

Dear Madam:-

Your request to the Schalkenbach Foundation, New York City, for a copy of form of lease in use in a Single Tax Colony, has been forwarded to us and we take pleasure in sending such a one as we use.

We are also sending some other matter regarding Fairhope, which we hope may be of interest, and would be glad to hear from you further.

FAIRHOPE SINGLE TAX CORPORATION,

By _____

Secretary.

Aug. 11, 1933.

Mrs. E.B. Barghoorn
45 West Babbitt St.,
Dayton, Ohio.

Dear Madam:-

Your request to the Schalkenbach Foundation, New York City, for a copy of form of lease in use in a Single Tax Colony, has been forwarded to us and we take pleasure in sending such an one as we use.

We are also sending some other matter regarding Fairhope, which we hope may be of interest, and would be glad to hear from you further.

FAIRHOPE SINGLE TAX CORPORATION,

By _____

Secretary.

Mrs. R. B. Barghoorn,

August 11, 1933,

Dear Madam:-

45 West Babbitt St
Dayton Ohio -

Shackenbach Foundation
New York City

Gentlemen

Could you furnish
me with a form of lease
used in a single tax colony
that is the lease between
members and the colony.

Yours very truly
(M.E.B.) E.B. Barghoorn

August 8, 1933.

Dear Mr. Gaston,

Will you please answer the enclosed letter and return to us with a copy of your answer to Mrs. Barghoorn. We would also like a copy of a lease, if possible.

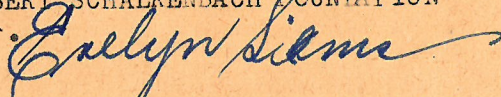
We thought you would be the best person to refer this letter to.

Thanking you for your cooperation, we are,

Sincerely yours,

ROBERT SCHALKENBACH FOUNDATION

per.

A handwritten signature in cursive script, appearing to read "Evelyn Sime", written over the printed name of the foundation.

P.S. We have sent her a copy of the May-June issue of "Land and Freedom" with the article on Collierville.

May 26, 1930

Morton B. Bartlett,
R.1, Mt Clare, W.Va.

Dear Sir:-

I find that your inquiry of some time since has not been answered, which I very much regret.

By way of answer I am pleased to enclose you herewith a copy of our lease form, giving the exact terms of our contracts, and as to what can be produced enclose a copy of article appearing in the L. & N.R.R. Employees' Magazine, entitled "The 'It' County of Alabama" republished by local Chamber of Commerce.

We have a remarkably healthful and pleasant place in which to live.

Under our plan purchase of land is avoided. One applying for a parcel of land pays a half year's rent at present rating, plus a fee for lease of \$1. Country land ranges from about \$3 an acre close to town, to \$1 farther out.

Hope you will find matter interesting. I am also sending you a copy of current issue of the Fairhope Courier.

Yours very truly

Secretary.

21/3/30.

MT Clare.

191. W. Va.

The Fairhope Single Tax
Corporation Fairhope. Ala.

I see in the L & N R.R.'s
"North & South" that you
have land which you
rent or lease on long
terms.

Please let me know
what your terms are
like, and what sort
of land it is, and
what you can grow;
also about health
conditions.

Respectfully

Morton B. Bartlett.

May 7, 1933.

R. Barton,
Anamoe,
Courclslow
Ireland.

Dear Mr. Barton:-

You write a nice hand, but in part a puzzle to me nevertheless, Hope this reaches you all right.

I am please to send you a copy of the Courier, and a "History" of our Colony; also an address I made at Chicago in 1928. Hope you find the same interesting.

The subscription rate of the Courier to Ireland is \$2.50 a year. Would be very glad to receive your subscription.

Hoping to hear further from you,

Yours most sincerely,

21st along House

Anamoe

Councils low

Ireland

Ap. 21st 1933.

Dear Sir,

I shall be very much obliged
if you will send me a copy
of the Fairhope Courier &
state what is the cost here
of a subscription for one year
including postage.

Yours faithfully,

R Barton

If you do any publishing work please
send me a list of books & pamphlets?
R.B.

AZALEA TOURS

*Personally Conducted Sightseeing Trips
Around Mobile and Vicinity*

AZALEA TRAIL
HISTORIC MOBILE
BELLINGRATH GARDENS
DAUPHIN ISLAND
BOAT TRIPS ON MOBILE RIVER AND BAY
EASTERN SHORE

BATTLE HOUSE
MOBILE, ALABAMA

Under Auspices of
BEATY TRAVEL BUREAU
MRS. ELLYN BROOMELL BEATY,
Director

April 2, 1935.

Dear Mr. Gaston:

Your letter of Mch. 25 reached me yesterday, as it hadn't been forwarded to me from Fairhope. I have been staying in Mobile for the last few weeks, and went home for the night last night to catch up on a few odds and ends. I shall probably be over here another week yet.

When I had to have some more circulars reprinted, I added the paragraph about the Eastern Shore trip, as it seems to me it can be made so easily from Mobile, either to spend an hour in Fairhope between buses or to spend the day there. The woods are so pretty now, and I think that the bus ride from Mobile to Fairhope is an interesting one, over the Cochrane Bridge with the view of the Bay, and down through the woodsy road into Fairhope. Of course Fairhope is not at its best now with the streets all torn up, but everyone understands that. I sent a woman and her daughter over the other day, who just stayed between buses to take the auto ride; she turned out to be the wife of the president of the T.C.I., and I am sure that Fairhope never would have reached her notice had it not been for this trip as listed. She came in to me at the hotel the first thing in the morning, and said that she had come down from Birmingham just to stay the day in Mobile and see everything there was to see; she said her husband had been transferred to New York and she probably wouldn't be back this way for quite a while. I promptly shot her off on this trip and she took my Azalea Trail and Bellingrath trips in the afternoon. Later on, when she thanked me for the pleasant day, she told me who she was.

I would appreciate it very much if you could mention in the Courier that a Fairhope woman, Mrs. Ellyn Beaty of the Beaty Travel Bureau, was in charge of

AZALEA TOURS

*Personally Conducted Sightseeing Trips
Around Mobile and Vicinity*

AZALEA TRAIL
HISTORIC MOBILE
BELLINGRATH GARDENS
DAUPHIN ISLAND
BOAT TRIPS ON MOBILE RIVER AND BAY
EASTERN SHORE

BATTLE HOUSE
MOBILE, ALABAMA

Under Auspices of
BEATY TRAVEL BUREAU
MRS. ELLYN BROOMELL BEATY,
Director

the Azalea Trail information desk at the Battle House. The Azalea Trail, Inc. had its headquarters at the Battle House, and I was incharge of the desk. At no salary, I assure you, but it did give me a good location for my trips, and I have had many interesting experiences talking to people here. The season has been such a short one that I haven't been able to do more than clear expenses, as I have to make up on sundays what I lose on week-days, and there have been only two good Sundays; you may remember what happened to the weather the first two weeks in March.

I assure you that I shall lose no opportunity to put Single Tax literature into the hands of any who inquire about it.

Thanking you, I am,

sincerely

Ellyn B. Beaty

Personally Conducted Sightseeing Trips
Around Mobile and Vicinity

AZALEA TRAIL
HISTORIC MOBILE
BELLINGRATH GARDENS
DAUPHIN ISLAND
BOAT TRIPS ON MOBILE RIVER AND BAY
EASTERN SHORE

AZALEA TOURS

BATTLE HOUSE
MOBILE, ALABAMA

Under Auspices of
BEATY TRAVEL BUREAU
Authorized Tourist Agency
MRS. ELLYN BROOMELL BEATY,
Director

THE BEATY TRAVEL BUREAU, in organizing AZALEA TOURS, aims to give visitors to Mobile during the Azalea season an opportunity to see all sides of Mobile's fascinating personality—Mobile, a romantic and historic spot, with her old streets lined with overhanging balconies edged with iron lace—Mobile, a modern seaport, with her industrial plants and miles of wharves—Mobile, an attractive residential city with her blossom-decked avenues of beautiful homes.

Mobile, delightful in any season, is at its best during Azalea time. Make the most of your visit by taking advantage of the services of the Beaty Travel Bureau's personally conducted Azalea Tours. Mrs. Beaty, Director, has made a careful study of the most interesting and worth while points in Mobile and its vicinity, and feels confident that you will be amply repaid in enjoyment and satisfaction when you see Mobile under her guidance. Below are listed the organized sightseeing trips offered for the 1935 Azalea Trail.

Azalea Trail and Old Mobile

This trip, occupying one and one-half hours, covers the long route of the Azalea Trail and in addition includes a comprehensive tour of downtown Mobile, its business section, and the side streets full of quaint structures reminiscent of Spanish and French occupation. The narrative of the guide who accompanies the party leaves you thrilled with the beauty and romance of this city, up-to-date but with more than two hundred years of history behind it. Comfortable Greyhound bus leaves Battle House at 1:00 p.m. daily.

Azalea Trail tour by Greyhound bus, \$0.75.

Bellingrath Gardens

A half-day trip of intensive interest is the tour of Bellingrath Gardens, located twenty-two miles south of Mobile on Fowl River. Bellingrath Gardens, the private estate of Mr. and Mrs. Walter D. Bellingrath, is renowned as one of the twelve most beautiful gardens in the United States. A visit to Mobile during Azalea time would not be complete without a trip to Bellingrath Gardens and its breath-taking spectacle of bloom. Bus leaves Battle House at 2:30 p.m. daily; other times by arrangement, by bus or private car.

*Bellingrath Gardens Tour by Greyhound bus, \$2.00, including admission to the Gardens.
Combination of Bellingrath Gardens and Azalea Trail by bus, \$2.50.*

River and Harbor Boat Trip

Mobile's waterfront contains much of interest to the visitor, particularly to the inland tourist. Miles of wharves, including the great State Docks and their warehouses; the banana wharves, fascinating scene of activity when a ship is in from the tropics; ship-building concerns and drydocks; pleasure craft and yacht clubs; Arlington recreation pier; the U. S. Quarantine Station; the lighthouse supply wharf—all these and more are to be seen in a tour of the river and harbor by boat.

One hour trip \$0.50.

Eastern Shore Trip

This trip, three and one-half hours in length, is arranged in connection with the regular schedule of the Fairhope bus and may be taken any morning or afternoon. The bus, by way of Cochrane Bridge at the head of Mobile Bay, takes you over the pine-clad hills and dales of Baldwin County, through woods flecked with dogwood blossoms and yellow jasmine, to Fairhope, Single Tax Colony and home of the School of Organic Education. Here an automobile takes you on a comprehensive trip around Fairhope and down to Battle's Wharf and Point Clear, summer resorts of ante-bellum fame, returning in time for the Mobile-bound bus.

Fairhope bus leaves Teche Greyhound Lines terminal, 201 St. Louis St., at 8:30 a.m. and 2:00 p.m. daily. Eastern Shore trip, including sightseeing by auto, \$2.00.

Guide Service

Azalea Tours guides are available at any time for those wishing to drive in their own cars. The guides are well qualified, being familiar with all aspects of the city, and they can arrange your route to suit your particular interests. A tour of Mobile under the guidance of the Beaty Travel Bureau will reveal unexpected charm off the beaten track.

Miscellaneous

Special trips may be arranged under the guidance of experts in their fields for groups wishing to make an intensive study of the azalea gardens, architectural details of old buildings, the historical background of the city, the advantages of Mobile as a seaport and industrial city, etc. Write for information.

For those planning a longer sojourn in Mobile, trips may be arranged to other points in the vicinity, such as historic Dauphin Island, mapped by Americus Vespuccius, and upon whose shores the first white man landed in 1528; Fort Morgan, once a battleground, but now a center of peace-time activity in its development by the Federal Government into a recreation park; Pensacola by boat via the new Intercoastal Canal or by train or bus across Baldwin County. Ask for estimates on these or any other trips.

The Beaty Travel Bureau will make hotel reservations at any time for individuals or groups. Incoming trains and buses will be met if desired, and everything possible done to make your stay in Mobile a pleasant and profitable one. Special attention given to groups; write for estimates on all-expense tours.

Address all inquiries to

AZALEA TOURS

Battle House, Mobile, Alabama

Feb. 27, 1934

J.Y. Beaty, Cascade,
Summit, Ore.

Dear Mr. Beaty:

I beg your pardon for delay in replying to yours of 1/29, which was overlooked.

The place about which you wrote, as I understood you, has been disposed of for this season, with an option of the tenant to purchase if he finds himself able to do so.

I note that you are in the condition of so many in these unfortunate days, so common as certainly to be no disgrace---though devilishly inconvenient-- but have talked with some of my fellow-officers, and with so many now here in the same fix, we do not feel like encouraging any one else to come from such a distance, without ready cash to make the fairly independent.

I hope you will appreciate the spirit in which this is offered.

Yours most sincerely,

Cascade Summit, Ore. 1/29-34

To Head of Singletax colony

Fairhope Ala

My Brother, S. Beaty, of
Near Fairhope wrote me of
a 20 acre place joining
Mr. Schneiders place on the
East. Sam said some Fence
on the Place and eleven acres
cleared. also a small House
he said it could be bought
for one hundred dollars \$100.
I would like to have the Place
if could arrange terms for
one year. We will give note
with Legal rate of Interest-
it will be the first of
October, 1934 before I could
come down there. so if this
Proposition interests you

let me hear from you
with all particulars to the
Place and the Improvements
I dont know who is head
of Colony now.

Mr. Gaston was when I
lived in that neighborhood
Let me hear from you

Yours Respe
J. G. Beatty

P.S. if you write me tell
me if there is more Land
near this place that could be
had later. as there is three
men of us so we could
handle considerable land

January 26, 1934

May Lamerton Becker,
C/o. "Reader's Guide"
The New York Herald:-

Dear Madam:-

A New York friend has sent me a clipping from your department, with the nice item about Fairhope, and I write to express thanks to you for the same.

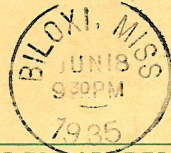
I do not know what information you have personally about our place and am taking pleasure in sending you some printed matter which may be of interest to you.

Again thanking your, I am,

Yours most sincerely,

Secretary

Would like very much to have
a few copies of your paper
mailed to me please and the bill
with them. Is there any way to
secure any scenic advertising
literature on Fairhope? Sincerely
Mrs Vera W. Beggs - 804 - E. Howard Ave



THIS SIDE OF CARD IS FOR ADDRESS

The Fairhope Courier
Fairhope
Alabama.

June 20. 1935.

Mrs. Vera W. Beggs,
804 East Howard Ave.,
Biloxi, Miss.

Dear Madam:-

In response to your recent card, we are taking pleasure in sending you a few late issues of the Fairhope Courier, and printed matter regarding our Single Tax Colony.

Am sorry we do not have the illustrated matter that should have, in justice to the many pretty scenes we have but am sending you what I find available. Cannot you come over and see us? Will be glad to show you about and give you full information.

Yours very truly,

FAIRHOPE SINGLE TAX CORPORATION?

By _____
Secretary.

JOHN R. BEGGS
JEWELER
103 WEST HOWARD AVENUE
BILOXI, MISS.

June 23rd 38

My dear Mr. Gorton.

Thank you very kindly for all the information - that very work - and I think you deserve words of praise on your "column" - It is certainly a very splendid paper - & many good things in it.

If my plans materialize I shall spend a day in I wish very soon - and see what arrangements I can make to take my child there in the early fall - to avoid the fogs of this low country. My kindest regards to all the Gorton family -

Yours W Beggs

August 3, 1936

Mrs. Amelia B. Bennett
Box 301
University, Ala.

Dear Mrs. Bennett:

My brother Jim handed me your letter of July 31, and I am sending you literature which I hope will be helpful in enabling your class to get such information as they may desire concerning the policy of the Fairhope Single Tax Corporation and the fundamental principles upon which we believe such policy to be based. Should questions arise which the class, or individuals in the class, feel they would like to have answered more specifically we will be pleased to give them personal attention.

I hope you will do all you can to correct the idea that it is difficult to get information concerning our Corporation. The purpose stated in the constitution, as you will see, is to establish a model community and our aim in setting up and maintaining this model is to have it available for the observation and study of all, as well as to provide more favorable economic conditions for those participating.

Please be assured of our willingness and desire to cooperate and of our appreciation of anything you may be able to do to spread the knowledge of Fairhope's economic policy of land administration.

Very truly yours,

Secretary

CAG/mg

Box 301
University, Ala.
July 31, 1936.

Mr. James Gaston,
Fairhope, Ala.

My dear Mr. Gaston.

As usual when I am in difficulties, I come to you, for in this case, if you cannot give me the information I want, I am sure you will know who can.

Here at the University, they do not seem to know the exact workings of the Fairhope Single Tax Corporation. They have also gotten the idea

that it is extremely difficult
to get any information con-
cerning it.

The matter came up in
our Political Science class
and I assured them that,
not only was information
available but also, that the
Fairhope Colony was much
more appreciated out side
the state than in it, where
upon, a demand instantly
arose for some material
on the subject.

Please see what you
can do about it. Any
pamphlets, or clippings or
any thing will be helpful.

I shall certainly appreciate
any thing you can do.

Please give my regards
to Mrs. Gaston and the other
members of the family.
I have certainly missed
Fairhope this summer.
My work has been pleasant
but it is very trying to be
away from home. I am
very glad that I shall
have only three more weeks
and August twenty first
will find me home again.
With very best wishes,

I am,
Sincerely, Amelia B. Bennett

April 20, 1931

Edward Bennett,
1103 Henry St.,
Houston, Texas.

Dear Sir:-

We are sorry your communication of April 15th has not received more prompt attention. Also sorry that many calls have exhausted our supply of any printed matter which would give you in one assembly the things you would, no doubt, like to know about our Colony.

We are sending you herewith a copy of "Quarter Centennial History," which gives the early history of the undertaking, a copy of our constitution, and of our form for application for land; also a little folder entitled "Whose Land" which tells an interesting story, provides a reply to the query and gives a condensed statement regarding the Colony.

We are also sending you a copy or two, of our local paper, of which the writer is editor and publisher and which devotes much attention to the Single Tax and related reform, the public ownership of public utilities.

We would be glad to hear from you further.

Yours very truly

THE FAIRHOPE SINGLE TAX CORPORATION,

Secretary.

1103 Henry St.,
Houston, Tex.,
April 5, 1931

City Secretary,
Fairhope, Ala.

Dear Sir:

Will you please send
me or refer me to information
about your Single-Tax-
Community.

I am very interested in
getting this data as
quickly as possible. Thanking
you very much, I remain

yours Truly,
Edward Bennett.

Fred'k. E. Betts,

**Organizer
Northern Division**

ROOM 31X WILLOUGHBY BLD.,

127X 21ST STREET EAST

Saskatoon, Sask.

P.O. Drawer 1137
Saskatoon, Saskatchewan,
October 31, 1935

Mr. E. B. Gaston,
Editor, "Courier,"
Fairhope, Alabama.

Dear Sir:

I read of your Single Tax Colony
and your publication in "Real America."

I would appreciate a sample copy with
subscription rate; also any literature which
may be available re the Colony - prospectus, etc.

Yours very truly,

F. E. Betts

*Have sent paper and
sub. rate -*

Nov. 11, 1935.

F.E. Betts,
Saskatoon, Saskatchewan
Canada,

Dear Sir:-

Yours of Oct. 31 before me. Please pardon delay in replying though I believe my subscription department sent you a sample copy of the Courier and subscription rate.

I take pleasure in sending you a copy of "History" of our Colony, a little folder of the local Cham. of Commerce, copy of form of lease used; and for presentation of the Single tax, as a measure to be accomplished by law in a general way, a reprint from the Congressional Record of many years ago of a speech by Henry George, the great apostle of the Single Tax, entitled "The Single Tax, What It Is and Why We urge It" which I hope you will find interesting. Would be gl'd to hear from you further.

Yours sincerely,

September 11, 1931

Dr. John W. Birk,
6006 Winthrop Avenue
Chicago, Ill.

Dear Sir:-

At the suggestion of Mrs. Florence C. Price, late of Chicago, now here, I am taking pleasure in sending you a little matter relative to the "Single Tax" and our limited application of the idea, through the means of our "Single Tax Colony."

I am sorry that our supply of really comprehensive printed matter regarding the "Colony" is exhausted on account of many late calls; as the present economic situation has increased interest in the general subject of economics.

With enclosures is included a very brief statement by Henry George, the great prophet of the Single Tax, entitled "The Single Tax, What It Is and Why We Urge It."

He had in mind of course, its application through law, by the use of the taxing power, inherent in governments.

Our idea is to make immediate application of the idea under existing law, by means of non-stock, non-profit, land-holding corporation, which would take in rent what Mr. George contemplated taking in tax and use the rent to pay taxes not only upon the land held in the name of the Corporation, but the improvements and personal property of lessees held thereon.

Our corporation is approaching its 37th anniversary, the community which it founded is now the largest town in the county, the largest county in the state; and grew more rapidly between 1920 and 1930 than any other town in the state of anything like the size, with one exception. And the Colony, while owning less than half the area of land in the Town, has upon it much the larger part of the population and practically all the business. This seems to us a pretty good test of the advantages of the policy; for there is nothing about it to stimulate a boom.

In another wrapper I am sending you a copy of my paper, the Fairhope Courier, of a few weeks ago, containing a portion of a Fourth of July oration, in 1877, by Henry George.

Yours very sincerely

Secretary.

OFFICERS

JOHN W. GAINES, CHAIRMAN
1215 City-Central Bank Bldg.,
San Antonio, Texas.

C. A. TEAGLE, Vice-Chairman
State National Bldg.,
Houston Texas

SINGLE TAX LEAGUE OF TEXAS

ORGANIZED MARCH 1916

1004 Smith-Young Tower

San Antonio, Texas

June 25, 1935

OFFICERS

J. M. PENLAND, Vice-Chairman
Allen Building,
Dallas, Texas.

J. B. LEWRIGHT, Treasurer,
534 Bedell Building,
San Antonio, Texas.

WM. A. BLACK,

EXECUTIVE SECRETARY

Mr. E B Gaston,
% Fairhope Courier,
Fairhope, Ala

Dear Sir:-

This is formal notice of the death of Mr. Wm. A Black,
at a local hospital on June 21st, 1935.

If you wish particulars of his life and work I can
furnish a few.

Sincerely yours,

Wm A Black

*P.S. I am planning to continue
his newspaper publicity,
and letters to the press, if
I get the help of his sup-
porters.*

June 26, 1935.

Mrs. W.A.³ Black,
1004 Smith-Yong Tower,
San Antonio, Texas.

Dear Mrs. Black:-

I am just in receipt of yours of June 25th, with news of the death of your husband and hasten to extend my condolence. A little less than a year ago, I had the like grief in the loss of my wife, after a happy married life of 40 years.

One solace I have which is unusual; that is the company about me of five sons and daughters, ~~xxx~~ all married and with children of their own; ^{all} living in Fairhope, and all devoted to the cause to which their mother and myself have been devoted throughout so many years.

I never had the pleasure of meeting ^{the} your husband, I received his letters and learned through the character of man he was--lover of his fellow-men, and striving to bring to them the knowledge of the fundamental wrong which marred their prosperity and happiness. I had hoped to meet him here sometime.

I hope you will keep up his work and to receive the literature you send out.

As to an obituary of Mr. Black, Mr. Marable, of Magnolia, Ark., has sent me an excellent one, just about the right length. Information as to marriage, ~~xx~~ children, if any, would be appropriate and I would be glad to have you furnish it. Hope to get it in next week's paper.

Sincerely and fraternally yours,

G. B. Gaston

OFFICERS

JOHN W. GAINES, CHAIRMAN
1215 City-Central Bank Bldg.,
San Antonio, Texas.

C. A. TEAGLE, Vice-Chairman
State National Bldg.,
Houston Texas

SINGLE TAX LEAGUE OF TEXAS

ORGANIZED MARCH 1916

1004 Smith-Young Tower

San Antonio, Texas

June 29, 1935

OFFICERS

J. M. PENLAND, Vice-Chairman
Allen Building,
Dallas, Texas.

J. B. LEWRIGHT, Treasurer,
534 Bedell Building,
San Antonio, Texas.

WM. A. BLACK,

EXECUTIVE SECRETARY

Mr. E B Gaston,
% The Fairhope Courier,
Fairhope, Ala

Dear Mr. Gaston:-

Yours of the 26th received this morning. I am Mr. Black's second wife. I do not know the date of his first marriage but he has two children by his first wife, a son, William Russell Black, whose last address (his father had not heard from him in six years before his death) was Paris, France; and a daughter Mrs. Minnie Graham Savage, of Detroit, Mich. By this latter Mr. Black had five grandchildren.

Mr. Black and I were married in 1918 and we have one son, Robert George Black, now fifteen years of age.

I hope this meagre information will be helpful. Mr. Black and I rather took statistics for granted, I think, - I know he never mentioned the date of his first marriage to me as far as I can recall.

Sincerely yours,

Mrs W A Black

P.S. Circumstances have changed since writing my last letter and I fear it will be necessary to give up entirely the single tax work in Texas - that is, as far as I am concerned. Our larger supporters are one by one withdrawing and I must have sufficient to educate my son and keep living myself.

Jan. 6, 1933.

Mrs. Hugo Black,
4437 Klinge St.,
Washington, D.C.

Dear Mrs. Black:-

I am delighted to receive yours of third and hasten to reply. Fortunately we have recently reprinted a "Quarter Centennial History" of the Colony, with matter bringing it practically down to date, of which I am mailing you a copy, with some items marked. Also a copy of an address I made at Chicago in 1928, and some recent clippings from the Courier.

I think the showing that we became the largest town in the County, as shown by the census of 1930 and that our growth between 1920 and 1930 was greater than that of any other towns of about the same size, with one exception, is excellent proof of benefits arising from our policy. But it has to be admitted that we are suffering from conditions from which the whole country suffers, and which we were and are powerless to affect.

I enclose one little folder entitled "Whose Land?" which tells a clever little story, and will be of service to you in showing (on pages 7 and 8, the relation of the "Colony" to the Town and how Colony transfers to its rent revenue the taxes imposed under general laws, upon land, improvements and personal property.

Senator Black has a copy of "Progress and Poverty" by Henry George, the "Bible" of the Single Tax movement, at least I sold him one, and I do not think of anything else specific to suggest to you, but am satisfied that there is a great wealth of material on Single Tax in the Congressional, under that head.

If there is any information that you think I can give you do not hesitate to call upon me.

With my very best regards to you and the Senator,

Most sincerely yours,

4437 Klinge St.
Washington, D.C.

Dear Mr. Gaston: -

I wonder if you
would be kind enough to
send me anything you
could about the single
tax policy in Fairhope.
I am young to the
American University &
I am supposed to write
an article to submit

has worked out practically.
With sincere appreciation for
this favor - I am -

Sincerely

Josephine Black
(Mrs. Hugo)

Address:

Mrs. Hugo Black
4437 Klinge St.
Washington, D.C.

in the Harper magazine
contest, & I am very
anxious to write it
on this subject.

If you could refer me
to any books or articles
that might assist me
very - I could get them
in the Congressional library.

I would like a short
sketch of the founding
of the colony - & how
the single tax policy

4437 Klinge St.

Dear Mr. Gaston: -

I thank you for
the literature you sent
me on the Single Tax
- & I hope I can
write an interesting
article about Fairhope.

With best wishes for
you continued growth
during the coming year
- I am -
Sincerely,
Josephine Black
(Mrs. Furr)

INVESTIGATION OF AIR MAIL AND OCEAN MAIL CONTRACTS

MAY 13 (calendar day, JUNE 18), 1935.—Ordered to be printed

Mr. BLACK, from the Special Committee to Investigate Air Mail
Contracts, submitted the following

PRELIMINARY REPORT

[Pursuant to S. Res. 349, 72d Cong., and S. Res. 143, 73d Cong.]

The Special Committee of the Senate to Investigate Air Mail
and Ocean Mail Contracts, submits the following preliminary
statement and report:

INTRODUCTORY STATEMENT

Pursuant to authorization by the Senate, this committee has vigorously investigated existing contracts for the carriage of domestic and foreign air and ocean mail. This preliminary report is confined to a discussion of foreign ocean mail contracts and the problem of obtaining and maintaining an American Merchant Marine.

It was found extremely difficult to bring to light the essential facts regarding the companies which have been receiving from the Government millions of dollars each year under so-called "mail contracts." Most of them have made such effective use of the corporate fiction that their holding companies, subsidiaries, affiliates, and associates present a vast financial puzzle which yields true facts only to the most persistent investigation and painstaking analysis. Such investigation and analysis, however, supplemented by the testimony—a great deal of which was reluctantly given—of many witnesses, has resulted in an understandable picture of marine subsidy in action.

On July 11, 1934, the President, by Executive order, directed the Postmaster General and such officers of the Postal Service as he might designate, upon giving notice to the holders of foreign ocean and air mail contracts, to hold public hearings on all such contracts entered into prior to June 16, 1933, and having considered the evidence adduced, to report to the President findings and conclusions as to whether such contracts, or any of them, should be modified or canceled, with substantial savings to the United States, and if so, in what respect.

This committee made available to the Postmaster General all data, information, and records secured by it in its investigation, and much of this material was made use of in the hearings before the Postmaster General. Copies of the reports of the Postmaster General to the President have been made available to this committee, to Congress, and to the public.

In view of the fact that at the hearings before the Postmaster General, much of the pertinent data previously assembled by this committee relative to ocean-mail contracts, together with evidence

secured by post-office inspectors and attorneys, from governmental files and other sources, was introduced in evidence, and that at said hearings full opportunity was given to the holders of these contracts to present, in person and by attorneys, all evidence which they might consider as bearing upon their respective contracts, and to argue their evidence, this committee has determined further committee hearings to be unnecessary for the present. This report is based chiefly upon the extensive investigations of this committee, although the committee has also availed itself of the transcript of evidence of the hearings before the Postmaster General, the reports of the Postmaster General to the President of the United States, and the statements of fact signed by the mail contractors themselves.

It is impossible at this time even to estimate what savings will be made by the Government in connection with ocean-mail contracts as a result of this investigation. Evidence has been developed before your committee indicating that the Government is entitled to recover very large sums by reason of overpayments made to certain contractors with the United States Shipping Board and the Post Office Department. The amount of such recoveries can be determined by investigations carried on by the Department of Commerce, Post Office Department, and the Department of Justice. It is assumed that these agencies will pursue such inquiries and recoveries with diligence and dispatch.

If proper laws are enacted to correct abuses which have been exposed by the evidence before your committee, and such laws are properly administered and enforced, it is contemplated that millions of dollars will be saved by the Government in the future.

It is also contemplated that the passage of proper laws and their vigorous enforcement would give us better ships, faster ships, more ships, and a merchant marine which could really be a source of pride to the people of America.

REPORT

The theory of marine subsidy is based upon three major objectives. These are:

To make certain that American farmers, manufacturers, and all American producers of goods marketable abroad can transport their products to foreign markets regularly, speedily, and at reasonable cost regardless of economic or war disturbances in any part of the world.

To make available constantly an efficient and sufficient fleet of potential naval auxiliaries, manned by American citizens, whose ability, training, courage, and loyalty will assure the successful operation of the fleet in time of peace as well as war.

In accomplishing the foregoing ends to give steady employment to American working men in shipyards and industries supplying shipbuilding material and the plants wherein they work, thus keeping ready for instant action the means of rapid ship construction in time of emergency.

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. Responsibility for this country's failure to secure that which it sought and for which it was

willing to expend and has expended hundreds of millions of dollars of taxpayers' money must lie at the door of three classes of people. *First, this burden of costly failure rests upon the enactment of an ill-advised compromise law. Second, upon certain public officials who flagrantly betrayed their trust and maladministered those laws. Third, upon those individuals who publicly posing as patriots, prostituted those laws for their private profit.*

It is painfully obvious that we have not an adequate Merchant Marine. Although the United States ranks third in tonnage engaged in the international carrying trade, it ranks fourth as to speed, and last among the principal maritime countries in regard to the age of its ships. Great Britain's combination passenger and cargo tonnage in vessels of 2,000 tons and over, under 10 years old, approximately trebles the like tonnage of the United States. Within the past 10 years we have built fewer modern cargo vessels of 2,000 tons and over than any country with pretensions to maritime standing—Spain alone excepted. Great Britain has 735 such modern cargo vessels; Japan has 74; and little Norway, within the last 10 years, has built 130, while the United States has built only 9 such ships.

Our Merchant Fleet is for the most part composed of 10-knot ships, which are woefully deficient if considered as potential naval auxiliaries. If every ship required by contracts let under the Merchant Marine Act of 1928 should be constructed, and all ships now in use remain in the service, upon the expiration of the present mail contracts in 1943, only 65 of all these ships would be less than 17 years old at that time. There will be 156 of these ships which have exhausted their economic lives, and the remaining 112 will have an economic life of 3 years or less. This is the pitiful result of a program which involved the expenditure of hundreds of millions of dollars, and contemplated an American Merchant Marine of the best equipped and most suitable types of vessels, sufficient to carry the greater portion of the commerce of the United States and serve as a naval or military auxiliary: This result is *failure*. And when we bear in mind, as we must, that a Merchant Marine must renew itself continually if it is to remain a factor in national defense and international trade, the magnitude and pity of that failure is almost beyond belief.

Even the Merchant Marine we have cannot fairly be described as "privately owned." When all mail contractors (except for the Industrial United Fruit Co.) are considered, it is found that the Government has "invested" by loans and ship-sale mortgages on contractors' vessels 1.39 times the stockholders' interest in their companies. This investment by the Government excludes more than \$120,000,000 so-called "mail pay" and a similar expenditure under the Managing Operator Agreements, which *Government money* is responsible for the major portion of the operators' present capital. Not only that, but *Government liens on certain vessels amount to 60% of the fair value* (cost less depreciation) *of the whole fleet.* This is a "rock-bottom" estimate of the Government's investment as it excludes \$451,201,354.48 excess war-time construction cost over book value, and it also excludes \$23,561,229.90 which represents the difference between the unrestricted value of the ships and their value in the restricted trades for which they were sold.

So it appears that the continuous policy of this country over a long period of years to spend public money to build up a privately owned shipping industry has met, and if continued as at present, will meet utter failure.

THE EARLY STAGE

The United States emerged from the World War with the firm conviction that this country should possess an adequate Merchant Marine, and with a fleet, afloat and under construction, of more than 2,000 sea-going vessels, acquired at an approximate cost of \$3,000,000,000. Declaring almost immediately the policy of private ownership and operation, the Government has disposed of most of these vessels. Two hundred and twenty of these ships are now used in mail-contract service. These 220 ships originally cost the United States \$516,174,249.48. They were sold for \$41,411,665.10. A few of these sales were cash transactions and the remainder were sold on terms of 25 percent down and the balance payable over a long period of years. The purchase price of these vessels was \$23,561,229.90 less than their book value when sold. This book value was the value of the ships as appraised in 1923, less normal depreciation to the dates of the sales. The Shipping Board now retains 282 cargo and passenger vessels, of which approximately 45 are now operated by managing operators for private profit, the remaining ships being tied up and inactive.

AGREEMENTS FOR PRIVATE OPERATIONS

Pending disposition of the Government-owned fleet, there came into being the Managing Operator Agreements. Under this plan the Government paid all voyage expense and also paid to the managing operator a fixed percentage of gross voyage revenue. Thus the managing operator found it advantageous to—and frequently did—increase voyage expense to such an extent that the Government incurred heavy loss (because the heavy voyage-expense was utterly out of proportion to the light return in revenue) but the managing operator's profit measurably increased because the gross revenue and his percentage thereof increased. This, of course, explains in great measure the large losses to the Government resulting from the operation of its ships by managing operators for private profit. Results of managing-operator agreements, a system under which such practices were possible, may not be contrasted against operation under mail contracts as an argument in favor of continuing the latter. Taken at its strongest, this argument is a statement that the Government should continue to pour millions of dollars down the mail contract rat-hole simply because in the past the Government poured millions down the managing-operator rat-hole. Viewed in its essentials, the argument is not impressive. In both the managing-operator plan and the mail-contract plan, the losses were the taxpayers' and the Government's, the operations and the profits were, by and for private interests.

These percentages paid to managing-operators, though deceptively small, resulted in payment of huge sums to those who were

favorable by such contracts. The losses incurred by the Government under this form of private operation of business are surely explained in part by profits thus realized by private interests.

\$500 INVESTMENT—\$6,700,000 PROFIT

As an example, the operation of the Dollar interests by the Admiral Oriental Line may be pointed out. Service on this route was established by the Shipping Board in 1921 as the "Admiral Oriental Mail Line", with new ships constructed and paid for by the Government. The Admiral Oriental Line, which was organized on October 2, 1922, with a cash capital of \$500 and notes given for capital stock in the amount of \$499,500, began operating this line under a managing-operator agreement made on November 2, 1922, and it was operated under this and succeeding managing-operator agreements for 3 years and 5 months. During this period this private company realized in net profits from its operation of Government-owned vessels on this route the sum of \$533,713.96, and also earned profits in the amount of \$463,682.01 from operations largely made possible by the existence of the managing-operator agreements. During this period the notes given for capital stock were wholly retired by dividends from earnings. Subsequently, without investing a dollar in addition to the original \$500, this company bought the line and certain ships from the Government and has earned net profits of \$4,106,590.46 from the operation of vessels (including a mail contract gratuity), making a total net operating profit of \$4,640,204.42. This figure does not include \$2,127,653.30, profits of the \$500 company from other sources.

When the 43 mail contract routes now in operation are considered, it is found that the *interests holding 18 of 43 contracts* have in the past benefited as managing operator with percentage-agreements, and have also purchased ships at less than their appraised value. Eleven others of the 43 routes are operated in whole or in part with ships purchased from the Government at less than their appraised value. The interests holding contracts on two of the remaining routes were beneficiaries of managing-operator agreements. Only seven of the present mail contractors have neither bought ships from the Government for less than their appraised values nor been the beneficiaries of managing-operator agreements. Five of these seven borrowed money from the Government at low interest rates, leaving at most two mail contractors who have not in the past received aid from the Government in addition to payments received by them under mail contracts.

Since 1930 the percentage system of private operation of ships through managing-operator agreements has been discontinued, and managing-operator agreements entered into since 1930 have been for lump-sum payments per voyage by the Government to the private managing operator. In more than one instance private operators under the lump-sum agreement have been enabled to earn enormous profits on small investments. Typical examples are to be found in the operations of the Lykes Brothers-Ripley Steamship Co. and the Roosevelt Steamship Co.

While the managing operator had to have sufficient capital investment to show financial responsibility to the Government and its bond-

ing company, there was no investment in fixed assets necessary to operate a line under lump-sum agreements and practically no working capital required, because lump-sum payments made by the Government were made currently.

LYKES BROTHERS LUMP-SUM PROFITS

In spite of this fact, the Lykes Brothers-Ripley Steamship Co. made a profit from lump-sum operations between August 15, 1930, and June 30, 1933, of \$1,702,770.01, inclusive of profits of its holding and subsidiary companies relating to such operations. Testimony shows that the voyage allowance under the lump-sum agreement was increased from \$7,000 per single voyage to \$14,500 per single voyage, following an application by the operator on September 18, 1931, wherein the operator states that "a thorough analysis of the operations of the first year's sailings conclusively shows that there will be no profit to the operator and very probably an actual loss." As appears from information later filed with this committee, the operator had made a profit to September 18, 1931, the date of the foregoing statement, of approximately \$100,000. No evidence that the Shipping Board made any material effort to verify the accuracy of past or prospective profits or losses alleged by the operator in the letter of September 18, 1931, has been found, and 11 days after the application for increase was filed, on to wit September 29, 1931, the Shipping Board granted this unjustified increase in compensation.

LUMP SUM PROFITS OF AN I. M. M. SUBSIDIARY

The Roosevelt Steamship Co. (which took its name from Kermit Roosevelt in 1920), with a then outstanding capital of \$22,000, made profits under a lump-sum agreement from 1931 to 1933, inclusive, amounting to \$371,987.96.

MAIL CONTRACT AID UNDER THE LAW OF 1920 AND BEFORE

The policy of extending aid to shipping enterprises in the form of mail contracts has been constant for many years. This aid was in existence even prior to the Merchant Marine Act of 1920. Under that act and prior to the enactment of the Merchant Marine Act of 1928, contracts were let and compensation paid as follows:

The Oceanic Steamship Co. received \$1,892,818; the Munson Steamship Line \$1,277,151; the Export Steamship Corporation \$341,666.66; the American South African Line \$135,000; the Dollar Steamship Line \$948,000; the Grace Steamship Co. \$564,003; and the New York and Porto Rico Steamship Co. \$29,070, a total of \$5,188,012.66. It will be noted that out of 7 contractors under the Merchant Marine Act of 1920, 6 hold contracts under the Merchant Marine Act of 1928. The seventh, the New York and Porto Rico Steamship Co., was awarded a contract under the Merchant Marine Act of 1928 which expired on July 1, 1932. This seventh company is a subsidiary of the Atlantic, Gulf & West Indies Steamship Lines, which holding company controls the New York & Cuba Mail Steamship Co., present contractor on routes 20 and 21.

The above résumé demonstrates clearly that since the World War it has been the continuous policy of this Nation to expend the public funds to build up and maintain a *privately owned and operated* American Merchant Marine and further demonstrates that shipping interests have taken advantage of this policy to build up private fortunes at public expense. It may be noted that there has been no direct governmental operation except that of the United States Lines between June 1923 and March 1929, on which latter date the United States Lines and the American Merchant Lines vessels were sold to the United States Lines, Inc., a private corporation. Private shipping profiteers and their apologists have deluged America with false statements charging huge governmental losses from governmental operation of ships. The millions to which they refer were lost, *but not by Government operation*. These losses to the Government were the result of private operation for private profit.

MAIL CONTRACTS UNDER THE MERCHANT MARINE ACT OF 1928

The Merchant Marine Act of 1928 (the Jones-White Act) continued and emphasized the theretofore existing policy of aiding the upbuilding and maintenance of a privately owned and operated American Merchant Marine from the public purse. Congress, however, determined that this aid should be distributed under a system of competitive bidding. This admonition by Congress did not meet with the approval of certain Government officials or the shipping interests, and the provision of Congress for letting mail contracts on competitive bids was substantially nullified by the concerted and arrogant action of these two groups. As proof of this statement, it is necessary only to point out that of 43 contracts now operating, only 6 were let at less than the maximum rates permissible under the law. The manner in which Government officials made a farce of this part of the law is readily apparent upon consideration of a brief excerpt from the stenographic minutes of the interdepartmental subcommittee, one of the Government agencies engaged in the administration of this act in June 1929. The speakers are: A. Lane Cricher, of the Department of Commerce; J. Caldwell Jenkins, of the United States Shipping Board Merchant Fleet Corporation; Commander Court, of the United States Navy; and W. Irving Glover, Second Assistant Postmaster General.

Mr. CRICHER. We skipped the Colombian Steamship Co.

Mr. JENKINS. That is Raymond's.

Commander COURT. He is in a jam because you rejected both bids.

Mr. GLOVER. The United Fruit.

Commander COURT. As the matter stands now, both bids are rejected.

Mr. GLOVER. Yes; he wants us to advertise that bid.

Mr. JENKINS. (Mr. Jenkins made some remarks off the record.)

Mr. GLOVER. There is no doubt in my mind that the United Fruit will do the same thing. In other words, *they want to get some of this money that is being passed around*; they are not particular whether on the Colombian service or their routes to the Canal or any other. If we don't act on their request for advertising some of their routes where they are exclusive operators, they will make an effort to get it; and I think that old man Raymond is wrong—he is taking too much for granted.

Mr. JENKINS. What do you think we should do?

Mr. GLOVER. I think we should advertise the Colombian route. I think that is a line which should be given aid. It is up against foreign competition; it

renders real service to us, and I think they are entitled to consideration. *We always felt that the United Fruit Co. was wrong in coming in and bidding the way they did.*

Mr. CRICHER. Here is a proposition that the Colombian Line maybe should have an advertisement for that service. I think so too; but we will have that mean situation again.

Commander COURT. Two questions are involved. First, as to the Postmaster General, as to certification of the lines that should be established for the carrying of mails from the United States to other ports; and second, the recommendations of the Shipping Board as to the type, size, speed and other characteristics of the vessels to be employed. *The line has already been certified; and the only way that I see that you can suggest the matter be re-advertised so as to give the Colombian Steamship Co. a good chance of getting it, is to have the Shipping Board figure out some way of specifying type, size, speed, etc., to give him a preferred position.* What do you think of that?

Mr. JENKINS. That is my idea exactly.

Mr. GLOVER. I think that is a good suggestion; *I think it is well to word your advertisement so that it might fall into the lap of the Colombian Steamship Co.* But I think you will have the bid of the United Fruit as the bugaboo before you take care of them, and I think that some of those United Fruit Lines you can well recommend as essential routes.

Mr. JENKINS. Well, for some reason or other Mr. Hanson of the United Fruit Co. would like to have some informal assurance that they would be considered, or rather, be assured, as far as we can do so, that they would get consideration on mail contracts on some routes; and that if they could get that, they would go ahead and build more ships and they would not be particularly concerned about this particular route, which was Mr. Raymond's route. If I recall, somebody intimated some suggestion on that; I think it was Mr. Cricher.

Mr. CRICHER. I suggested that we consider the application of the United Fruit Co. and see how the thing would work out.

Mr. JENKINS. I did not suggest this, he suggested it to me—that if he could get some assurance from some other direction, he would make a bid on this line.

Mr. GLOVER. That opens up an interesting avenue.

Mr. GLOVER. Of course, you would get an awful howl if you got the United Fruit to Corinto and still leave the Grace out on the West coast, because they are very much interested; *and if there is going to be any pie, they want to be in.*

Mr. GLOVER. Let us bear in mind that Colombian steamship proposition.

Mr. CRICHER. That would be another one out of New York. We know, of course, they would be so busy with their program here that they could not bid on that one, and it would clear the air if we could have the services, one out of New York, one from New Orleans, and one from the Pacific coast.

Mr. GLOVER. *There is no doubt that these gentlemen will play square; they will not bid on the Colombian line.*

Mr. JENKINS. That is their idea.
(Italics supplied.)

Another interesting scene taken from the performances of this subcommittee and the shipping interests occurred in consideration of route no. 57, let to the Lykes Bros.-Ripley Steamship Co. On this occasion Mr. E. R. White, then Director of the Division of International Postal Service of the Post Office Department, asked

Mr. J. T. Lykes if the contract did not “practically limit competition to one company?” And Mr. Lykes replied, “I think that is substantially correct, Mr. White.” Mr. White then said:

And we ourselves can see that that is all right and desirable, but we know that it is being charged in Congress and elsewhere that the contract, advertisement and contract, permits of no competition, while *the law does contemplate competition.*

Mr. Joseph T. Lykes:

Yes, that is quite true; *it will substantially or practically, I will say, limit competition as far as we can see, and very frankly that is one reason why we want it in one contract, which is, as we say, in accordance, as far as we understand it, with the general intention of all branches of the Government, that the contract should go to these Government services.*

Mr. White then observed that the language of the law “called for competition” and stated:

We go right ahead in the face of it.

but concluded:

I think we should determine what should properly be done under the circumstances and go ahead and do it.

It was suggested that the question be submitted to the Comptroller General, and Mr. White asked,

Where would we be if we put it up to the Comptroller General and he turned it down?

He added,

The Comptroller General is very liable to take the attitude that it destroys competition, whereas the law calls for competition, and we have deliberately made it possible to destroy competition.

Later, he stated,

I wonder if it would be better to put it up to him beforehand or go ahead without him and do it and confront him with it afterwards. We might be worse off than ever if we put it up to him beforehand, but we would be no worse off after it had been made than we would be if he turned it down beforehand.

Mr. Joseph T. Lykes replied:

Speaking for ourselves, I think we would rather go ahead without saying anything—I mean from our individual position.

(Italics supplied.)

The contract for route 57, as discussed, was subsequently awarded to the Lykes Bros.-Ripley Steamship Co. The Colombian line received its contract, the United Fruit was “gotten to Corinto”, and the “awful howl” foreseen by Mr. Glover was averted by awarding contracts on the west coast to the Grace interests.

It is worthy of note that the Colombian Steamship Co. receiving this contract under these conditions, with a paid-in capital of only \$376,500, had made a net profit of \$1,183,204.05 during the 6 years preceding the award of this noncompetitive contract.

With reference to the Lykes-Bros. contract on route 57, it will be noted that the prospective contractor had made a proposal to purchase 52 vessels from the Shipping Board, contingent upon the award of the mail contract on this route. The contract having been awarded, the vessels were sold without advertisement or competitive bidding. The present administration questioned the legality of this sales con-

tract and discontinued delivery, but 43 vessels had been delivered prior to this decision.

There was only one bidder on each of 43 contracts. In only one out of 46 "lettings" did any person other than the person to whom it had been planned in advance to award a contract succeed in securing one. This was the smallest of all the contracts and was acquired in less than a year by the line for which it was originally intended, by its purchasing the capital stock of the low bidder.

Furthermore, only 6 of the 46 contracts were awarded at less than the maximum rates allowed by statute. Inasmuch as it might be thought that these six routes were of unusual excellence, they may be considered in brief detail.

Route 55 was let to the Gulf Pacific Mail Line, Ltd. The contract contained a false warranty that no contingent fee was promised, whereas a contract had been made for payment of such a fee in the amount of \$25,000 to one Elisha Hanson, and it is subject to cancellation upon this ground. The contract is also subject to cancellation for breach by reason of the contractor's failure to construct a new vessel as required by its terms. The route is without postal value and is shown to have been recently of more trade value to Canada than to the United States. The high bidder for this route at the time when he was finally compelled to submit his bid was still engaged in a vain attempt to ascertain from the Post Office Department the details of the service he might be required to perform under the contract.

The effective date of the contract covering route 22 was June 1, 1929. On February 13, 1930, all issued and outstanding capital stock of the successful bidder was bought by the unsuccessful high bidder, who has subsequently operated the route. The route has no postal value and slight, if any, trade value. The high bidder is now in bankruptcy. The contract is subject to cancellation, as it has been breached by failure to supply a new vessel required by its terms.

Routes 25 and 26 were let to the Dollar interests. On each route there was but one bid and that at maximum rates. Both bids were reduced from \$8 (the maximum permissible under the law) to \$6 for the first 5 years of the 10-year contract. This was done under protest at the request of the Postmaster General, who gave as ground for the request the fact that the available appropriation was not enough to justify payment of these rates. Route 26 was the lucrative Admiral Oriental route referred to hereinabove. The report of the Postmaster General to the President finds that both of these contracts may be canceled upon the ground that they were negotiated and that no opportunity was afforded for competitive bidding on either route.

Route 36 was secured by the Tacoma Oriental Steamship Co. This company bid \$2.25 per mile for class 6 vessels (\$2.50 being the maximum), and \$3.75 for class 5 vessels (\$4 being the maximum). There was no other bidder for the route. The Postmaster General has reported to the President that at the time the route was established there was adequate service by faster vessels between the ports to be served and that there was then no prospect that any mail would be assigned to the proposed route without considerable delay thereto; that route 26, operated by the Admiral Oriental Line with 18-knot vessels, 26 times per year, served practically the same territory; that 76 percent

of the stock of the contractor company was acquired by the Admiral Oriental Line through a subsidiary in 1931; that the vessels employed on the route will have reached the end of their economic lives at about the time the mail contract expires; that the contractor has been unable to meet its obligations to the Shipping Board, being delinquent on June 30, 1934, in the amount of \$171,112.44; and that the contract is subject to cancellation because awarded after negotiation and not as the result of competitive bidding, as well as for failure to provide a substitute vessel required by the terms of the contract.

The contract for route 34 was awarded to the Pacific-Argentine-Brazil Line, Inc., the only bidder therefor. The bid of the contractor was \$2.37 for vessels for class 6, or 13 cents less than the maximum permissible under the law, and maximum rates for vessels of class 5 and class 4. The postal service has not in any manner benefited by the operation of this route, which has at times been an actual detriment to the expeditious dispatch of the mail. At the expiration of the mail contract the route will be served by worn-out, inefficient vessels. The contract is subject to cancellation, having been awarded in violation of the law requiring competitive bidding, and against the public interest in that the contractor was already obligated under an existing contract with the Government to operate its vessels over this route for a term of 5 years without aid in the form of a mail contract. The public interest does not warrant an expenditure of public funds under this contract, and it is not surprising that this improvident contract resulted in an average annual return to the contractor of 20 percent on its invested capital. These profits came during depression years and out of the pockets of taxpayers whose income was decreasing, not increasing.

NULLIFICATION OF COMPETITIVE BIDDING

It was contemplated by the Merchant Marine Act of 1928 that the Postmaster General should first determine what ocean-mail routes should be established and certify them to the United States Shipping Board. The Shipping Board was then to determine and certify to the Postmaster General the type, size, speed, and other characteristics of the vessel which should be employed, the frequency and regularity of sailings and all other facts bearing upon the capacity of the vessels to meet the requirements of the service stated by the Postmaster General. Upon receipt of this certificate, the Postmaster General was to advertise and secure competitive bids for furnishing the service in question. What actually happened was this:

The agents, lobbyists, and representatives of steamship lines descended upon the Post Office Department, which, acting in startling harmony with these alert and affable spokesmen of privilege, speedily reached decisions as to the "mail route" to be established, the character of service to be demanded (always a service then being operated by the prospective contractor, or which it was fully prepared to operate and which, in many instances as will be pointed out, it was then bound by guaranteed contract with the Government to operate for a term of years *without additional aid in the form of mail pay*), and the amount of compensation it was to receive. This procedure is in striking contrast to the expectation of Congress that this compensa-

tion was to be fixed by free competition between prospective contractors.

Having accomplished this preliminary spadework, the result of these cooperative labors was transmitted to the Shipping Board in the form of a "certification of the Postmaster General." This certification was accompanied by the representatives of the prospective contractors, who were equally at home in both places. Instantly and pliantly the Shipping Board "determined and certified" to the Postmaster General those things which the interdepartmental subcommittee and the prospective contractor had agreed upon in advance that the Shipping Board *should* certify. The route was then advertised and the contract let to the company, which had arranged in advance the service it was to render and the compensation it should receive. The Postmaster General has advised the President that 42 out of 43 active contracts are subject to cancelation, 40 of them because let in open defiance of the legal requirement for competitive bidding. This advice by the Postmaster General is based upon the transcript of evidence adduced before him, which is replete with proof that these contracts were regarded as the personal perquisites of favored shipping interests, considered as "pie" and parceled out as such.

This was "competitive bidding" as practiced under the Merchant Marine Act of 1928. *In fact there was no competitive bidding. Officials and contractors combined to and did prevent it.*

THE STANDARDS FOR COMPUTING COMPENSATION UNDER THE MERCHANT MARINE ACT OF 1928 ARE UNWORKABLE AND PRODUCTIVE OF FRAUD

The Merchant Marine Act of 1928 set definite limits for compensation to be paid under mail contracts by classifying vessels according to speed and tonnage and providing a maximum rate for each class. Under this act a vessel of given speed and tonnage falls automatically into a particular classification and is entitled to earn a maximum compensation provided by the act for a vessel of that classification. The gross registered tonnage of a given ship is readily ascertained. Whether or not, however, it is "capable of maintaining" a given speed "at sea in ordinary weather" is frequently a very doubtful question, determinable only after exhaustive and expensive investigation. A difference of one-tenth of a knot in speed may make a difference of 25 percent in the payment for the services of a given ship. The *whole amount* paid out for a vessel claimed to be capable of maintaining 10-knot speed is illegal if the vessel is incapable (if only by a fraction of a knot) of maintaining that speed, for vessels not capable of maintaining 10-knot speed are not eligible for ocean mail service. No effective machinery for determination of the speed which mail contract vessels are capable of maintaining having been provided by the Merchant Marine Act of 1928, the make-shift expedient of accepting logs furnished by ocean mail contractors was adopted. Investigation made within the past few months has conclusively shown that millions of dollars have been paid out which should not, and would not, have been paid out had the actual facts as to the speed of ships been known to the Post Office Department. As an example of the improvidence of this method of measuring compensation, its ineffectiveness in operation, and the

practices permissible thereunder, attention is drawn to the case of the S. S. *Margaret Lykes*, operated on route 23 by the Lykes Brothers Steamship Co.

This vessel was placed in operation and accepted as a vessel capable of maintaining a speed of 13 knots at sea in ordinary weather upon the strength of an affidavit by the president of the contracting company that it was capable of maintaining a speed of 13 knots. Logs of the *Margaret Lykes* were furnished from time to time and payments made upon the theory that the ship was capable of maintaining a speed of 13 knots. It was testified by a former first officer of this ship that he was instructed to falsify the log to show weather conditions in excess of those actually noted. It has been recently established by speed tests, under the supervision of an inspector of the Department of Commerce and an officer of the United States Navy, that the *Margaret Lykes* is not, and has never been, capable of maintaining a speed of 13 knots at sea in ordinary weather. The acceptance of this vessel and the payments made for its services have resulted in an overpayment to the ocean mail contractor in an amount of \$437,124, as this ship was operated under an agreement specifying a vessel capable of maintaining a speed of 13 knots.

Flagrant abuse of the Merchant Marine Act of 1928 is found in the classification of vessels on the basis of speed without regard to tonnage. The section of the act providing for such classification was designed by Congress for use in extraordinary situations. Instead of applying this provision only to situations for which it was designed, the officials administering the act seized upon it and utilized it as a method for paying a higher rate of compensation than Congress contemplated for ships of particular classifications. *These unjustified and inexcusable classifications cost the Government, prior to January 1, 1935, not less than \$15,429,658.50, and if the present contracts are continued and the minimum number of contract voyages made, will cost the Government in the future an additional sum of not less than \$28,926,277.50.*

THE USE OF CHARTERED VESSELS

While the Merchant Marine Act of 1928 authorized and directed the Postmaster General to include in ocean mail contracts "such requirements and conditions as in his best judgment" would "insure the full and efficient performance thereof, and the protection of the interests of the government", no ocean mail contract contains a provision requiring that the vessels operated in performing the contract be owned by the contractor. In consequence, some of these contracts are being performed by vessels in which the contractor has no investment and under charters containing provisions requiring that they be returned to the owner in time of war. Some of these ships are chartered at low rates from the United States Shipping Board. The impropriety of payment under mail contract for vessels so chartered from the Shipping Board was called to the attention of Postmaster General Brown in the case of the Export Steamship Corporation by President Hoover in 1930, but the files of the Post Office Department reveal no answer to the President's letter. The practice was also protested by Congressman Fiorello H. LaGuardia.

dia about the same. There had been paid for the services of chartered vessels (not including inter-company charters of vessels in which the mail contractor may be argued to have some investment) prior to January 1, 1935, not less than \$1,463,546. Attention in this connection may be called to the mail contracts of the States Steamship Co., the Export Steamship Corporation, the Colombian Steamship Co., the American West African Line, the American Scantic Line, and the Waterman Steamship Corporation.

MAIL PAYMENTS TO INTERCOASTAL OPERATORS

It surely cannot be contended that Congress ever intended mail contracts to be let on links of intercoastal routes, wherein the competition to be faced by the operator was only from other American interests. This was well known to Government officials administering the Merchant Marine Act of 1928, but despite that knowledge such contracts were let and are being operated today. Thus there is placed in the hands of the favored contractor a murderous economic weapon *to be used against his American competitors* in a trade wherein vessels of foreign registry *may not engage*. As an example, attention is called to route 37, operated by the Grace interests through the Panama Mail Steamship Co. This route, extending from San Francisco to Habana, Cuba, is a link in the Grace intercoastal service between San Francisco and New York. When the contractor "applied for" this contract, it recognized competition with the Panama Pacific and the Luckenbach Lines, both American-flag services operating between New York and San Francisco. On August 16, 1929, when this contract was under discussion, A. Lane Cricher of the Interdepartmental Committee stated that he was "trying to bear in mind * * * that the mail contracts are not for intercoastal service." There was at that time before the Interdepartmental Committee the report of an examiner made on August 8, 1929, which stated in part that "the terminals of this route (New York and San Francisco) place this service either in the intercoastal trade or in direct competition with same." The report of another examiner made on October 3, 1929, forecast the possibility that the better and faster service to be furnished might "throttle American competition in the restricted trade between United States ports where the law does not permit a mail contract." The examiner making the latter report suggested that "The Intercoastal Conference of Steamship Operators would probably be the best judge of what is necessary to be done to protect the interest of the operators in the intercoastal trade, and it is suggested that they be consulted." No investigation to determine what was necessary to protect these American operators is revealed by files of the Post Office Department, nor is it shown that the intercoastal conference was ever consulted in the matter. Statistics show that for the last available period (Oct. 27, 1933, to Sept. 21, 1934), twenty-four voyages on this route showed the percentage of gross revenue earned by the vessels of the contractor in their operations between San Francisco and New York, including the mail contract voyages, to be 32.1323 foreign and 67.8677 intercoastal. A statement prepared by the Bureau of Research of the United States Shipping Board in 1933 shows the Panama Mail

Line to compete with the Panama-Pacific Line, Dollar Line, Luckenbach Line, and American Hawaiian Line, all American-flag concerns.

In spite of the facts recited, the Grace contract was let, and to June 30, 1934, there had been paid thereon in excess of the sum which would have been paid for carrying the mail at American poundage rates \$2,690,427.82. An estimate based upon the minimum provisions of the contract shows that there will be paid from July 1, 1934, to the end of the contract in excess of poundage rates the sum of \$6,103,927.72, a total amount in excess of poundage rates paid to this operator of an intercoastal service competing with American-flag concerns not aided by postal contracts of \$8,794,355.54.

Another instance is found in the operations of the American Lines Steamship Corporation on route 32 from New York to Balboa, Canal Zone. The American Lines Steamship Corporation is a 100-percent-owned subsidiary of the Atlantic Transport Co. of West Virginia, which is in turn 100 percent owned by the International Mercantile Marine Co. The contractors' vessels operate from New York via Habana, Cristobal, Balboa, San Diego, and Los Angeles to San Francisco. The report of the Postmaster General finds that the payments under this contract, as well as being a mere gratuity to the contractor, *are discriminatory as against 23 other intercoastal lines operating under the American flag without mail-pay aid and consequently serve as a detriment to the American merchant marine.*

Another angle of the employment of mail contracts as an aid to the intercoastal operations of the contractors is illustrated by the situation of the States Steamship Co., contractor on routes 28 and 29 from the west coast of the United States to the Orient. This company earned on their actual investment of \$600,000, for the years 1928 to 1932, inclusive, an average return of 45 percent per annum, and an average from 1928 through 8 months of 1934 of 26 percent per annum.

The company has made no provision for reconstruction or replacement of its fleet, which will be obsolete upon expiration of its postal contracts, but *has* an investment of \$1,191,979.85 in the Pacific-Atlantic Steamship Co., operating through the Quaker Line in the intercoastal trade in competition with other vessels flying the American flag.

It was admitted by the president of the company on the witness stand that had the company instead of making the investment in intercoastal operations set aside a building fund made up of its profits over and above an 8 percent annual return on the company's original investment, plus an amount equal to depreciation charges and excluding \$333,000 due from the Quaker Line, which was written off in 1932, there would have been in that fund by November 1934 approximately \$1,500,000 available for construction purposes.

It is apparent that not only has this company placed the profits from postal contracts in competition with unsubsidized American-flag enterprises, but that by so doing it has deprived itself of funds which might otherwise have been available for replacing vessels which will be worn out upon the expiration of the postal contracts.

Operators in what is known as the "nearby-foreign" trade, which is semiprotected, are also extensively aided by postal contracts at the expense of their unsubsidized American competitors. Examples

of this and of situations where potential American-flag operators would be discouraged by the preexistence of a subsidized American company in the field are to be found in routes 39, 40, and 41 (United Fruit Co.); routes 15 and 52 (Eastern Steamship Lines); route 23 (Lykes Bros. Steamship Co.); and route 55 (Gulf Pacific Mail Line, Ltd.)

UNDER FOREIGN FLAGS

It would seem elementary that aid in the form of postal contracts should not be extended to operators of foreign-flag tonnage, their affiliates, or subsidiaries. Nevertheless, this has been done, and according to the most recent data, it continues.

The United Fruit Co. (contractor on routes 39, 40, and 41) and its subsidiaries own 95 vessels; 82 of them were built in foreign yards and 64 are operated under foreign flags.

The owners of the American Scantic Line (route 16) own the Mooremack Line, which employs seven Norwegian-owned Norwegian flagships directly competing with the Munson Line, which receives mail pay of approximately \$48,000 per voyage, and the American Republics Line, another Government-subsidized operation, under the lump-sum operation for private profit and Government losses.

The contract of the Munson Steamship Line on route 4 became effective August 1, 1928. According to statistics introduced into the Congressional Record by Congressman Edwin L. Davis of Tennessee this line owned and operated, in 1929, 4 foreign-flag vessels and operated under charter in the West Indies, Canadian, and South American trades 147 foreign-flag vessels of 443,251 tons. In 1929 this line cleared from New Orleans for ports on the east coast of South America 10 British vessels, 1 Danish vessel, 1 Dutch vessel, 1 Norwegian vessel, and 6 American vessels. The line has been in bankruptcy since June 13, 1934, and the trustees now operate only seven ships, all under the American flag.

The Barber Steamship Line, Inc., which owns 70 percent of the American West African Line, Inc., contractor on routes 17 and 47, is traffic agent for the Union Castle Mail Steamship Co., Cayzer-Irvine & Co. (the Clan Line), James Chambers & Co., the Houston Lines, Ltd., and Wilhelm-Wilhelmson. All of these lines are under foreign flags; Wilhelm-Wilhelmson under the Norwegian and the remainder under British registry.

The Strachan Shipping Co. owns 80 percent of the South Atlantic Steamship Co. of Delaware, contractor on route 33. While the Strachan Shipping Co. does not charter vessels to load out of United States gulf ports, it acts as agent for the Van Uden Line under the Dutch flag, the Harrison Line under the British flag, the Kokusai Line under the Japanese flag, the Cosulich Line under the Italian flag, the Mitsui-Bussan-Kaisha under the Japanese flag, the A. B. Cellulosa Transport Line under the Swedish flag, the Bank Line under the British flag, and the Hansea and the Hanseatische Lines under the German flag.

The activities of the International Mercantile Marine in foreign-flag shipping are, of course, well known. Prior to the inauguration of this investigation, it disposed of the White Star Line, retaining, however, a general United States agency for the line and collateral security

for payment of more than 11 million dollars. Since this investigation began, the rapidity of its disposition of foreign-flag tonnage has been materially accelerated and it is reported that most, and possibly all of its foreign-flag ships, have now been sold. It is impossible to state definitely at this time whether any of the interests which have acquired these ships are in any way connected with the interests controlling the International Mercantile Marine.

SUBSIDY PILED UPON SUBSIDY

On 27 out of 43 active ocean mail routes the operator, immediately prior to receiving its postal contract, was contractually bound to maintain adequate service for a term of years. This service had already been subsidized by the sale of ships to the contractor at less than their appraised value, and the assurance that there would be no Government-aided competition on the routes. This was service guaranteed by surety bonds, which service the Government was entitled to receive without the payment of an additional dollar. Under the postal contracts, however, millions of dollars have been spent for the very service which the contractor was bound to perform and the Government entitled to receive without the expenditure of a dollar from the United States Treasury.

For instance, on March 5, 1928, the States Steamship Co. purchased 11 ships from the Government. These ships had been constructed by the United States at a cost of \$24,490,039 and had a book value at the time of sale of \$2,264,000. They were sold for a total consideration of \$1,065,000 in restricted service, with an obligation upon the States Steamship Co. to operate them over what became routes 28 and 29, with a minimum service of not less than 24 voyages per annum on what became route 28 and not less than 12 voyages per annum on what became route 29. This obligation was to continue for a period of 5 years, beginning on the date on which the buyer took delivery and placed on loading berth the first of the vessels purchased. The Government was protected against default by bonds in the penal amounts of \$400,000 for default during the first year, \$320,000 for default during the second year, \$240,000 for default during the third year, \$160,000 for default during the fourth year, and \$100,000 for default during the fifth year. In addition, it was provided that for default in any one year in making 1 to 4 of the voyages required, the States Steamship Co. should pay to the United States the sum of \$25,000 as liquidated damages for each voyage defaulted.

As usual in such contracts, the Government agreed that it would not, during the 5-year period, operate or permit the operation of any Shipping Board cargo vessels in competition with the lines operated by the States Steamship Co. over these routes, or charter any of its vessels at a price lower than the current charter rates for operation out of any such port or ports in competition with said lines, and would further protect the States Steamship Co. against competition. The mail contracts, as let, provided for not less than 24 trips per annum upon route 28 and not less than 12 trips upon route 29. Service was required and actually begun under the contract on October 1, 1928. Prior to June 30, 1934, the States Steamship Co. received from the Government as compensation for its

services on these routes, an amount exceeding what would have been paid for the transportation of the mail at American poundage rates the sum of \$3,525,610.44, or more than three times the entire purchase price of the ships, which it bought from the Government.

Such allotment of mail aid, in order to secure service already subsidized by the Government and which the Government was entitled to receive without such allotment, *especially in view of the fact that the contract provided for no construction of ships*, was utterly improvident and contrary to public interest, and did not tend in any way to build up a merchant marine.

Other contractors who have been beneficiaries of this multiple subsidy system included the Oceanic & Oriental Navigation Co. (on four routes), the International Mercantile Marine interests (on three routes), the America West-African Line, Inc. (on two routes), the Dollar interests (on two routes), the Lykes Bros. interests (on two routes), the Munson Steamship Line, the Export Steamship Corporation, the American Scantic Line, Inc., the Colombian Steamship Co., Inc., the South Atlantic Steamship Co., the Pacific-Argentine-Brazil Line, Inc., the Mississippi Shipping Co., Inc., the Tacoma-Oriental Steamship Co., the Grace interests, the American Diamond Lines, Inc., the Waterman Steamship Corporation, and the American South African Line, Inc.

HOLDING COMPANIES, SUBSIDIARIES, AFFILIATES, AND OTHER MEANS OF PIPING OUT THE PROCEEDS OF POSTAL CONTRACTS

The necessity for simplification of corporate structure, a uniform system of bookkeeping, and limiting the marine activity of Government-aided shipping companies to bona fide foreign-trade shipping operations is obvious upon consideration of a few situations brought about under a subsidy system whereby these essentials are *not* demanded.

The Pacific Lighterage Corporation is a stevedoring company which derives the major portion of its revenues from stevedoring for the subsidized Dollar Steamship Lines and American Mail Line. The American Mail Line is 100 percent owned by the Admiral Oriental Line, which is controlled by the Dollars and their associates, including Herbert Fleishhacker. As of December 31, 1932, the physical assets of the Pacific Lighterage Corporation were carried on the books at \$9,916.80, and its capital stock consisted of 50,000 shares. Of these 50,000 shares, R. Stanley Dollar and J. Harold Dollar jointly owned 13,000 shares; J. Harold Dollar 5,000 shares; A. F. Haines, vice president of the Admiral Oriental Line and vice president of the American Mail Line, Ltd., 9,990 shares; and Estand, Inc., which is 100 percent owned by Esther J. Dollar, wife of Stanley Dollar, 20,000 shares.

From 1929 to 1933, inclusive, this \$10,000 lighterage company, which is substantially an affiliate of subsidized shipping companies, after paying relatively large salaries to its officers, who are also officers of the mail contracting shipping companies, *realized profits in the amount of* \$1,175,182.69. These profits were "hidden profits" to the individuals deriving the benefits of the postal-contract subsidy and were not apparent upon inspection of the shipping companies' books.

When these mail contractors were called upon by this committee to furnish, among other things, a statement of the profits of all affiliates, subsidiaries, etc., no information as to these profits was furnished, and it was necessary for this to be discovered by the laborious activities of investigators for the committee.

This is a customary method by which the corporate fiction has been availed of by mail contractors to *show an apparent*, but not actual, need for subsidy.

THE DECEPTIVE A. G. W. I. CORPORATE NETWORK

The New York & Cuba Mail Steamship Co. is the operator on routes 20 and 21. As of December 31, 1933, 199,645 of 200,000 shares of this company's stock, issued and outstanding, were owned by the Atlantic, Gulf, and West Indies Steamship Lines.

From 1928 to 1933 the books of the New York & Cuba Mail Steamship Co. reflect a loss of approximately \$1,735,000, and on December 31, 1933, the stockholders' investment of \$10,000,000 was offset by a deficit of \$10,895,787.73, making the net worth of the company a negative figure approximating \$895,000.

The Agwi Navigation Co., a wholly owned subsidiary of the Atlantic, Gulf & West Indies Steamship Line (the parent company of the New York & Cuba Mail Steamship Co.) constructed with Government aid two new ships to be used on route 20. This Agwi Navigation Co. has no business other than to own vessels and charter them to the New York & Cuba Mail Steamship Co., the operator of the postal routes. The charter hire paid by the New York & Cuba Mail Steamship Co. to the Agwi Navigation Co. for these two ships was sufficiently high to permit the Agwi Navigation Co. to pay \$900,000 in dividends out of profits of \$1,068,426.50 to the common parent company of the ship charterer, the Agwi Navigation Co. and the operator of the postal routes, the New York & Cuba Mail Steamship Co. from 1928 to 1933, inclusive. The parent company had invested in the Agwi Navigation Co. the sum of \$2,975,151.65.

Within 6 years (1928-33) the New York & Cuba Mail Steamship Co. paid as bond interest the sum of \$1,244,344.01. On December 31, 1933, all New York & Cuba Mail Steamship Co.'s bonds were owned by its parent company, the Atlantic, Gulf & West Indies Steamship Line. Prior to 1919 the company paid *dividends* amounting to \$16,050,000.

Had the New York & Cuba Mail Steamship Co. used a portion of this \$16,050,000 to retire its bonds instead of paying it out in dividends, and thus made it unnecessary to pay bond interest to its *parent company*, and built its own ships instead of paying for their hire from *another subsidiary of its parent company*, the loss reflected upon its books for the period of mail operations in the amount of \$1,735,000 would have been a profit of \$618,000.

This complicated corporate set-up and system of misleading inter-company transactions, when dragged into the open, shows that the actual beneficiaries of the marine subsidy have, in this case, set up as the theoretical operator of the routes *a mere corporate shell*, the

books of which reflect a loss, in spite of which the actual recipients of the benefits of the subsidy have, during the period of the postal contract, pocketed substantial profits.

THE CORPORATE WEB OF I. M. M.

The Roosevelt Steamship Co. (contractor on route 46) is a subsidiary of the International Mercantile Marine Co. As of December 31, 1933, the International Mercantile Marine Co. had invested in the United States Lines Co. (contractor on routes 43 and 44), \$1,020,000. The Roosevelt Steamship Co. collects commissions of approximately 19 percent of gross voyage revenue (excluding mail) of vessels owned and controlled by the United States Lines Co. R. Stanley Dollar, when president of the United States Lines, testified that he knew of no other operating agreement in the United States amounting to as much as 15 percent. Commissions thus received by the Roosevelt Steamship Co. totaled \$3,097,537.95 between December 8, 1931, and December 31, 1933, and, of this amount, \$2,712,055.65 was paid by the Roosevelt Steamship Co. to the International Mercantile Marine. During the same period, the books of the United States Lines show a purported loss of \$1,886,379.11.

The Roosevelt Steamship Co., having a Capital stock of only \$22,000, passed on to the International Mercantile Marine 90 percent of the gross commissions received for operating the vessels owned and controlled by the United States Lines, and retained for itself 10 percent and showed on its books a net profit, from this specific operation, between December 8, 1931, and December 31, 1933, of \$237,648.23. The exact amount of profit to the International Mercantile Marine from this operation cannot be ascertained in view of the complicated and varied activities of this holding company.

The International Mercantile Marine Dock Co., a 100-percent owned subsidiary of the International Mercantile Marine Co., has a capitalization of \$100. This dock company leases New York-Chelsea Piers 58 to 62, inclusive, on the North River for \$384,500 per year. It subleases the piers to the International Mercantile Marine Co. and has operated the piers to serve its subsidiary and affiliated companies and the White Star Line almost exclusively.

The net profit to the International Mercantile Marine Co. from operation of these piers has been more than a half million dollars a year during the period of the mail contract. In 1932 the International Mercantile Marine Co. collected wharfage from subsidized companies, as follows:

From the Atlantic Transport Co. of West Virginia (charterers of vessels operated under foreign ocean mail route 32).....	\$76, 670
From the Roosevelt Steamship Co. (U. S. Shipping Board vessels).....	95, 367
From the United States Lines Co. (foreign ocean mail routes 43 and 44).....	262, 185
Total.....	434, 222

It may be pointed out, incidentally, that the International Mercantile Marine has made substantial advances to its subsidiary, the Frederick Leyland & Co., Ltd., a British corporation, owner and operator of foreign flag tonnage, which company suffered a net operating loss of \$8,539,920.76 from 1928 to 1932 inclusive. As of December 31, 1932, this company was indebted to the International

Mercantile Marine, on open account, in the amount of \$3,800,000 and owed the British Government, under the Trades Facilities Act on construction loans, \$436,500.

THE MUNSON MAZE

The Munson Steamship Line has operated route 4 under the Merchant Marine Act of 1920 and 1928 since April 1, 1926. At the time when Munson obtained a mail contract under the Merchant Marine Act of 1928, the service was actually operating at a profit, and the effect of this mail gratuity was almost to double the operating profit on the route until late in 1930. While the testimony of a Shipping Board auditor shows that the books of this company in 1933 were in a deplorable condition, the system complicated by intercompany transactions and subsidiaries piled on top of each other, and the system seemingly designated so that neither the employees of the line nor anyone else could tell the true results, a study of comparative balance sheets shows that while the postal route operated at a profit, approximately 7 million dollars was lost in other ventures. This is readily understood in the light of the fact that as of June 13, 1934, the line had a controlling interest in 29 subsidiary companies, including steamship companies located in New York, New Orleans, Galveston, Cuba, Scotland, Norway; a New York building corporation, a barge and lighterage company in the Bahamas; a marine works, two hotel companies and a golf course in the Bahamas, as well as the Compania de Almacenes de Deposite in Cuba. This line has been in bankruptcy since June 13, 1934. Of course no sound system of marine subsidy (if any subsidy can be sound) would permit the proceeds of a profitable route to be dissipated in this manner, nor would it permit such a puzzling and deceptive corporate network to exist.

THE GRACE ENIGMA

W. R. Grace & Co., through 100-percent-owned subsidiaries, is the beneficiary of ocean-mail contracts on routes 8, 37, and 38. According to the statements of its own representatives, however, this company is engaged in many forms of business activity other than shipping. Its shipping activities, conducted through subsidiary companies, are merely one of the divisions of a diversified and wide-flung business which includes also foreign merchandise, industrial, banking, and other enterprises, mainly in Central and South America. Investigation disclosed that this enormous holding company controlled 54 subsidiary corporations, at December 31, 1932, including the Grace National Bank of New York, Chilean nitrate companies, sugar plantations, and trading agencies. It was a slow and tedious process to develop the facts concerning these associates, affiliates, etc., and in fact, the corporate mesh is such that a genuine picture of operating expenses and income is impossible.

The shipping, banking, merchandising, and industrial activities of this enormous and complicated corporate machine are interrelated, and to a very great extent, interdependent. Substantial percentages of all cargoes carried on routes 8, 37, and 38 are owned or controlled by the Grace interests and utilized by them in their operations other

than shipping. Obviously, the mail-contract subsidy in this case is in effect a subsidy not only to the shipping business, but a subsidy to many other enterprises, including trading and banking.

It may be noted that for the 18-year period, from 1916 to 1933, W. R. Grace & Co. showed gross profits from all sources of \$82,264,342.79 before manager's compensation, taxes, adjustments, and dividends, of which sum approximately \$35,898,000 was received from direct shipping operations. Dividends paid by W. R. Grace & Co. during this period amounted to \$43,571,896, and manager's compensation amounted to \$14,778,137.69.

J. P. Grace, president of W. R. Grace & Co., during 1928, the year when the contract for foreign ocean mail route 8 was awarded, received a salary of \$75,000, commissions of \$398,050, and dividends of \$498,610.20, a total of \$971,660.20. Mr. Grace is an official or director of numerous other corporations, including the National City Bank of New York. D. S. Iglehart, vice president of W. R. Grace & Co., during the same period (1928) received a salary of \$75,000; as commissions, \$471,800, and as dividends, \$132,438, a total of \$679,238. Mr. Iglehart was also a director of the Grace National Bank of New York. R. H. Patchin, Harold J. Roig, and Wm. F. Cogswell, officials of the mail-contracting Grace companies, were also directors of Pan American-Grace Airways, Inc., which is the beneficiary of foreign air-mail contracts. Pan American-Grace Airways, Inc., is 50 percent owned by W. R. Grace & Co.

Other major officials of W. R. Grace & Co. who have received, from 1924 to 1932, inclusive, sums in excess of a quarter of a million dollars, include the following: G. H. Carter, \$626,453.96, an annual average in excess of \$69,000; Harold J. Roig, and A. Garni, \$615,189.46 each, or an annual average exceeding \$68,000; E. T. Ford, \$555,090.06, an annual average exceeding \$61,000; and R. H. Patchin, \$371,660.03, an annual average exceeding \$41,000.

The foregoing shows that at least seven officials of Grace shipping companies, which have been subsidized by the Government, received, over a long period of years, compensation in excess of \$40,000 per annum.

HOLDING COMPANIES ARE DEVICES FOR FRAUD

Holding companies, subsidiaries, associates, affiliates, and what-nots have been used by shipping companies for the uniform purpose of siphoning the income of subsidized operating companies into the pockets of individuals. These complicated corporate subterfuges and devices met our investigators in practically every office. It sometimes required weeks and months even to find their names. Frequently they were only discovered from income-tax reports and from special written questionnaires requiring the names of companies supplying goods and services to the subsidized company. When discovered, it was always found that these corporate devices concealed salaries, bonuses, secret expenses, and purloined revenues, which in equity and good conscience should have remained in the treasury of the subsidized company. In few instances, if any, are there any legitimate or honest reasons for the existence of these complicated networks and corporate shells.

In these corporate webs men frequently hold offices in so many interrelated corporations and draw so many corporate salaries that it is difficult for them to remember the names of the corporations, the offices they hold, or the salaries they draw for services they do not perform. The printed evidence before the committee is filled with proof of this.

One illustration is taken from the evidence of Mr. John J. Farrell. Mr. Farrell and his brother are the chief officers of the complicated corporate structure of shipping companies and ship service companies which surround and almost conceal the subsidized American-South African Line, Inc. This witness, John J. Farrell, had realized from salaries, dividends, and gain in stock values from the corporate structure, between 1926 and June 1933, not less than \$1,827,212.40. Here is a part of his evidence:

(Record p. 941.)

The CHAIRMAN. As a matter of fact, Mr. Farrell—

Mr. JOHN J. FARRELL. You have better records than I have, Mr. Chairman.

The CHAIRMAN. As a matter of fact, you do not know what offices you have held in these various affiliated and associated companies?

Mr. JOHN J. FARRELL. I have a record somewhere.

The CHAIRMAN. But you do not know what functions you performed as an officer of these companies as to directing how stevedoring should be done and shipping handled?

Mr. JOHN J. FARRELL. The active man was Mr. Arthur R. Lewis, who was president. I never received a salary as an officer.

* * * * *

The CHAIRMAN. The Waterfront Service Corporation?

Mr. JOHN J. FARRELL. I am a director. I do not know whether I am an officer or not.

The CHAIRMAN. Are you sure you are a director in the Waterfront?

Mr. JOHN J. FARRELL. I do not know, sir; I would have to get the record.

(Record p. 954.)

The CHAIRMAN. Did you ever go out there on the Pacific coast?

Mr. JOHN J. FARRELL. Yes, sir.

The CHAIRMAN. To see about the stevedoring company?

Mr. JOHN J. FARRELL. I have been on the Pacific coast, sir.

Mr. DISSOWAY. Is it all right for me to inform him?

Mr. JOHN J. FARRELL. He prepared my income-tax report.

The CHAIRMAN. Yes.

Mr. JOHN J. FARRELL. The head office of Norton-Lilly & Co. is at New York, and all of that stuff would clear through New York.

The CHAIRMAN. May I ask you a question as a business man and citizen, with reference to what might affect legislation?

Mr. JOHN J. FARRELL. Yes, sir.

The CHAIRMAN. Do you think it is conducive to good business in this country to have men serve on so many directorates, and so to draw salaries from so many companies as officers, that they do not know what companies they are in?

Mr. JOHN J. FARRELL. No, sir; and I have resigned from a considerable number of companies, and have tried to concentrate—

The CHAIRMAN. With reference to shipping, do you not think that whatever policy the Government may carry out with reference to a merchant marine, that it ought to require, in some way, that the people who act for the merchant marine, work for the merchant marine and limit themselves to efficient operation?

Mr. JOHN J. FARRELL. I agree with you entirely.

We agree with Mr. Farrell, who stated from knowledge acquired by experience, that these corporate networks and devices should be prohibited by law.

MILLIONS DUE THE GOVERNMENT IN DEFAULT, BUT CONTRACTORS AND LOBBYISTS CONTINUE TO PROFIT

While ocean-mail contractors were delinquent in their obligations to the Government on December 31, 1934, by not less than \$3,852,699 (which figure does not include the delinquency of \$439,812.46 of the Seatrain Lines, Inc., the validity of whose contract is denied by the Government), inexcusably heavy profits have been made by some ocean-mail contractors and excessive salaries, fees, commissions, and expense accounts have been paid to officers, agents, and high-powered "fixers" plying their art in Washington.

The evidence shows that at a time when Government aid of the Dollar routes was limited to fostering a practical monopoly of American flag ships from our west coast to the Orient for this company, as a result of ship sales at low prices, R. Stanley Dollar, J. Harold Dollar, H. M. Lorber, and Herbert Fleishhacker withdrew in cash in the year 1925 a total of \$162,000. Had this rate of withdrawal continued during the first 5½ years of ocean-mail contract operations, from January 1, 1929, to June 30, 1934, their withdrawals would have totaled \$891,000 instead of \$2,762,257.46 which was the amount actually withdrawn by the Dollar-Lorber Fleishhacker group passing through the customary deceptive channels of subsidiaries, associates, affiliates, etc. This was an increase in cash withdrawals of \$1,871,257.46, an amount closely approximating the delinquencies of the Dollar Lines' obligation to the Government.

R. Stanley Dollar received from his Dollar Steamship Line and Admiral Oriental Line \$698,750 as commissions incident to the purchase of ships from the United States Government at low prices.

The service covered by route 18, operated by the ATLANTIC & CARIBBEAN STEAM NAVIGATION CO., is known as the "Red D Line." This service has been in existence for more than 50 years, having been established in 1881. From 1892 to 1922, this company continuously carried mail under the old act of 1891. From 1922 to October 1, 1928, the company carried mail at poundage rates.

The original cash investment of \$1,000,000, which was contributed between 1881 and 1899, increased to a net worth of \$3,178,983.26 by December 31, 1933. In addition to profits added to the net worth, the company paid out, between 1881 and December 31, 1933, in dividends not less than \$5,000,000. Obviously, this company had made substantial profits on its invested capital prior to its receipt of a mail contract under the Merchant Marine Act of 1928, which became effective October 1, 1928. From 1929 to 1933 inclusive, the company made profits of \$1,224,260.57. Had the company not received between 1929 and 1933 the \$1,373,978.15 (which represents the excess of contract mail pay received over what the company would have received for transporting the same amount of mail at American poundage rates), it would, during this depression period, have sustained a net loss of only \$147,717.58. Even under such circumstances, however, no loss whatsoever would have been incurred had not large salaries been paid (as they were paid) to officers, and had "management fees" of \$133,333.33, paid by the contractor to its parent holding company—Bliss-Dallett & Co.—in 1929 and 1930, not been paid. In

1929 to 1933 inclusive, this contractor paid dividends of \$600,000, an average rate of 6 percent per annum on its outstanding capital account, and accumulated an even larger amount in its surplus fund during this depression period. The fact that this company, without a mail contract, might have lost a comparatively negligible amount of money at a time when practically all enterprises incurred heavy losses and when freight revenues upon this particular line, as well as elsewhere, were a fraction of what they had been in 1929, cannot be said to justify the award of this contract, which made possible the continued payment of large salaries and holding company commissions, and which was executed at a time when every evidence indicated that the company would operate at a substantial profit without Government aid. While the Atlantic & Caribbean Steam Navigation Co. is not delinquent in its pecuniary obligations to the Government, it has failed to put into operation on the route additional vessels contemplated by its contract.

Henry Herberman, when president of the EXPORT STEAMSHIP CORPORATION, from 1926 to 1934 inclusive, received as salary \$517,172.19 and as expenses \$478,424.88. These amounts came from the contractor and corporate affiliates. He also received \$85,910.00 in dividends, and his personal indebtedness to the Export Steamship Corporation and its subsidiary, the Steers Terminal Co., had grown by April 10, 1934 to \$231,098.36, a total amount received by Herberman during this period of \$1,312,605.43. By February 1927 the Export Steamship Corporation began to find it necessary to have its notes to the Shipping Board extended. On February 15, 1927 the Shipping Board extended the Export note for \$60,886.47, and in one 17-day period, between February 10 and February 27, 1929, Henry Herberman, the Export's representative in Washington, received for nonitemized expenses \$11,360.00, and the treasurer of the Export Steamship Corporation "has no idea" what became of it. Actual delinquencies began in March 1931 and have continued down to date.

The activities of Henry Herberman with reference to financial transactions with Government employees in the purchase of lands and cattle are now too well known to require repetition in this report. The whole evidence indicates, however, that his "expenses" while in Washington, during 1928 and 1929, on business for this mail contract company, exceeded an average of \$1,000 per day.

The average annual profits of the WATERMAN STEAMSHIP CORPORATION, operators of route 54, prior to securing a mail contract, were 17 percent on its outstanding capital stock. This profit was earned as managing operator for the United States Shipping Board. The average annual net profit since the acquisition of a mail contract by the company (as an owner and not an agent) has been 32 percent on outstanding capital stock. The first 6 months of 1934 reflect an average annual profit at the rate of 45 percent on outstanding capital stock. The high return on the investment of

this company is attributable in part to a plan of "reconditioning", found in mail contracts, which operates in this manner. By "reconditioning" certain vessels so as to increase speed from 10 to 13 knots, at a cost ranging from \$50,000 to \$120,000 per ship, this contractor has arranged to increase its compensation for the services of such vessels from \$2.50 to \$4 per mile. Up to October 31, 1934, this increased compensation paid to the contractor on six such ships amounted to \$279,012. The amount which the Post Office Department estimates will be paid over the remainder of the contract for speeding up these six vessels is \$2,606,175. It is estimated that the additional mail pay which will be received by this contractor, if it succeeds in reconditioning 10 ships according to the agreement, will be approximately \$4,500,000, whereas it does not appear possible that the entire reconditioning program, including improvements and speeding up these vessels of this contractor will cost more than \$2,000,000. This company is not delinquent in its pecuniary obligations to the Government.

From 1928 to 1933 inclusive, the INTERNATIONAL MERCANTILE MARINE, its subsidiaries and affiliates, paid to six lawyers and their law firms, more than \$370,000. These lawyers frequently represented them in Washington. In addition, over \$384,000 was paid during the same period to more than 10 law firms recognized as maritime, corporation, and tax specialists, as well as for general litigation.

From 1920 to 1933 inclusive, the president of the International Mercantile Marine, P. A. S. Franklin, has drawn as salaries, bonuses, and commissions from that company, its subsidiaries and affiliates, \$1,952,410.06, an average exceeding \$139,000 per year.

Similarly and from the same sources, J. M. Franklin, son of P. A. S. Franklin, drew \$15,000 in 1928, 1929, and 1930; \$20,551 in 1931; and \$28,004 in 1932; Basil Harris, \$15,000 in 1928, 1929, and 1930; \$20,551.11 in 1931; and \$28,004 in 1932. Kermit Roosevelt, \$15,000 in 1928, 1929, and 1930; \$20,551.11 in 1931; and \$28,100 in 1932. Twenty-six assorted vice-presidents, treasurers, secretaries, managers, agents, superintendents, and assistants to all these, received for their services in excess of \$7,500 per annum from 1928 to 1933, inclusive, drawing a total of \$1,717,137, an average exceeding \$13,000 per individual per annum. The receipts of each of 4 vice-presidents, included among the 26 employees above referred to, averaged over this period well in excess of \$20,000 per year. Figures reflecting salaries, commissions, bonuses, etc., paid to employees of this concern subsequent to 1932 are not available at this time. Delinquencies of lines operated by this group began in 1932, and 2 of its companies, the American Lines Steamship Corporation and the Baltimore Mail Steamship Co. are now delinquent.

The MISSISSIPPI SHIPPING CO., INC., contractor on route 35, for the 6-month period ending June 30, 1934, showed as a result of operation a return of 23 percent on outstanding capital, a return of 46 percent per annum. These high profits may be attributed in part to a reduction in April 1933 of its manning and wage scale below the 1930 Shipping Board scale, which scale was in effect when the post contract was secured and at the time the cut was made.

A "reconditioning plan" of the same general nature as that described with respect to the Waterman Steamship Corporation may also be said to have contributed to this high rate of return upon invested capital. It should also be noted that this company made an annual profit of 15 percent on its investment from April 17, 1929, to June 30, 1930, inclusive, *immediately preceding the award of the mail contract*. This latter period embraces all the operations of the company as an owner and not as an agent for the United States Shipping Board. While this company is not delinquent in its obligations to the Government, some of its notes have been extended.

Elisha Hanson, whose signature as assistant secretary of the GULF PACIFIC MAIL LINE, LTD., is attached to the postal contract on route 55, which contract contains a warranty that the contractor "has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage, or contingent fee" received a contingent fee for his services in connection with the contract in the amount of \$25,000. It should be noted that it was found extremely difficult to secure favorable action upon the application of the Gulf Pacific Mail Line, Ltd., for this contract, and that when difficulties were encountered it was the custom of Mr. Hanson to address a letter to Lawrence Richie, then Secretary to the President, who would in turn address a letter to the appropriate department, upon receipt of which, difficulties therefore encountered seem to have been dissipated.

The AMERICAN SCANTIC LINES, whose owners operate Norwegian-owned, Norwegian-flag ships in direct competition with subsidized American shipping and also operate in the protected coastwise trade in competition with American shipping which is not subsidized, has received more than one million dollars as the result of an improvident and inexcusable "reconditioning plan" negotiated with the Post Office Department.

While the Government has favored this line with a triple subsidy by selling it for \$868,670 vessels having a book value of \$1,882,000, by Shipping Board loans, and by postal contract, it may be noted that the line has filed suit in the Court of Claims for \$39,963.75 for services alleged to have been performed in the transshipment of mail at Copenhagen, Denmark, between October 1, 1928, and December 30, 1933, and that the Post Office Department has absolutely denied liability. In addition, it should be noted that at the time when this contract was let the Government was entitled to receive adequate service over this route for a period of at least 5 years without the expenditure of any Government funds. The company is not delinquent in its pecuniary obligations to the Government.

One paid Washington representative of subsidized shipping companies, upon one occasion, *actually wrote a letter which was signed by the Postmaster General himself*, which letter acquiesces in the elimination of a clause providing for placing mail pay in escrow for the protection of the Government. It was this same paid representative who, on December 5, 1932, wrote to his subsidized employer, suggesting that Mr. Otto Praeger, of Texas, then mentioned in connection with the office of Second Assistant Postmaster General, should return (if he were to return) to the Post Office Department as First, Third, or Fourth Assistant Postmaster General rather

than as Second Assistant, in which capacity he would have had active charge of foreign mail. This lobbyist significantly states:

He (Mr. Praeger) is said to be rather ruthless on cutting costs and possibly not very much in favor of our mail aids.

Attention has previously been called to the fact that the letting of the outstanding contract to the MUNSON STEAMSHIP LINE on route 4 in 1928 substantially doubled the profits on that route for several years. Incidentally, this is a contract which has resulted in no ship construction whatever. The vessels operated on the route will have exhausted their economic life within 4 years after the expiration of the postal contract. From 1926 to 1934, inclusive, this company paid salaries to eight individuals aggregating \$1,509,460. During this 9-year period Frank C. Munson received \$465,600 and Carlos W. Munson received \$329,200. In addition to these salaries, this company set up on its books in 1929 provisions for a bonus to the officers of the company in the amount of \$100,000; \$58,818 was actually drawn—\$32,400 by Frank C. Munson, \$20,000 by Carlos W. Munson, and \$6,418 by other officers. The sum of \$41,182 still stands as a credit on the books of the line. During November and December of 1930 and January of 1931 this line defaulted on four notes to the Shipping Board, each in the amount of \$51,300, a total default of \$205,200. Each of these notes was extended for 1 year. In 1930 and 1931, the years when these defaults occurred, officers' salaries paid by the line amounted to \$439,460. Although the operation of the postal route has been consistently profitable, the company is now in bankruptcy and extensively obligated to the United States Government.

J. E. Dockendorff testified before this committee that his interests, including the American Diamond Lines, of which Mr. Dockendorff was president, paid an attorney \$100,000 for services in connection with the purchase of ships from the Government.

For the period of approximately 3 years immediately preceding its receipt of a mail contract on route 6 under the Merchant Marine Act of 1928, the AMERICAN SOUTH AFRICAN LINE, INC., approximated a return of 20 percent per annum on its outstanding capital stock without including in this computation \$114,000 received in mail pay, the greater portion of which was earned by contract under the Merchant Marine Act of 1920. This contractor, during the period of the present contract, made before deduction for income-tax purposes a profit of \$1,186,881.03, averaging approximately 77 percent per annum on the company's outstanding capital stock. It is estimated that the investment of the stockholders (capital stock plus undivided profits) has yielded a return of approximately 23 percent per annum during the period of the mail contract, in spite of the fact that most of this period has been in the depression years. These profits were determined after the payment of substantial executive salaries, legal fees, carrying charges, and depreciation. *The wage scale now paid by this contractor is substantially less than the scale prescribed by the United States Shipping Board.* The line is not delinquent in its obligations to the Government.

The LYKES BROTHERS STEAMSHIP CO., INC., as at June 30, 1933, had invested in vessels operating on route 23, \$321,556.58. During the period from August 28, 1928 (the inception of the con-

tract), to June 30, 1933, a period of less than 5 years, this company would have earned a profit, before deduction for income tax, *without any mail pay* whatsoever of \$327,694.71. The mail revenue received by the contractor during this period amounted to \$1,587,444, and the contractor's net profit from operations under this mail contract for this period amounted to \$1,915,138.71, although the contractor claims that \$62,148.34 of this amount was earned by irregular extensions of special voyages to nonmail-pay ports after completing mail voyages. This company is not delinquent in its pecuniary obligations to the Government.

AMERICAN STEAMSHIP OWNERS' PROPAGANDA ACTIVITIES

The American Steamship Owners' Association in 1932 created a Committee on Shipping Information with a 6-month budget of \$48,300 to be financed by an assessment on mail contractors at the rate of one-fifth of 1 percent on the mail pay received from the Post Office Department during the fiscal year 1932. A representative of a mail contractor, who was present, advised his company that at the meeting creating the committee:

There was unanimous agreement that the situation as to appropriations required effective and sustained action and considerable emphasis given to the thought that the steamship interests ought to try to present always a united front at Washington.

Between November 15, 1932, and July 13, 1933, the total expenditure of this committee averaged about \$5,000 per month. The program which was carried out included news releases and popular illustrated articles, direct correspondence with newspaper editorial writers, radio, speakers before commercial organizations, congressional educational campaigns "disclosing interest of Representatives' constituents in the merchant marine", and the publication of a book. The committee employed a director at a monthly salary of \$800, an assistant director at a monthly salary of \$300, four stenographers, and a "publicity agency."

The shipping interests have operated through many agencies without disclosing their activities to the general public. They have extended financial aid to numerous associations and organizations scattered over the United States some of whom innocently, and some of whom with their own knowledge and active cooperation, have been made the instrumentalities of insidious propaganda.

Raymond J. Baker, secretary-treasurer of the American Steamship Owners' Association, admitted upon the witness stand that he and his organization had stopped the printing of certain unfavorable articles upon the merchant marine in newspapers.

The following testimony from this committee's printed record shows the background of one propaganda campaign. The witnesses are Mr. J. E. Dockendorff, president of the subsidized American Diamond Lines, Inc., and Mr. Raymond J. Baker, secretary-treasurer of the American Steamship Owners' Association.

(Record p. 369-370.)

The CHAIRMAN. During these last few years you have also been paying money into the American Steamship Owners' Association, have you not?

MR. DOCKENDORFF. No more than our fee, *except during the last 6 months or a year we have paid about \$1,050 for work in connection with the American Merchant Marine.*

Senator McCARRAN. That was in addition to your fee?

Mr. DOCKENDORFF. In addition to our fee, as members of the American Steamship Owners' Association.

Senator McCARRAN. Whom did you pay that to?

Mr. DOCKENDORFF. What is that?

Senator McCARRAN. Whom did you pay that to?

Mr. DOCKENDORFF. To the American Steamship Owners' Association.

Senator McCARRAN. Was there any special purpose that it was used for? That was in addition to your fee. Now, why was that paid?

Mr. DOCKENDORFF. *That was for expenses that I understood were to be incurred for a committee for propaganda work*, in the sense of trying to show what an American Merchant Marine would mean to this country.

Senator McCARRAN. That was a publicity committee?

Mr. DOCKENDORFF. If you wish to call it that way; yes.

Senator McCARRAN. Who was the head of that committee?

Mr. DOCKENDORFF. Mr. Jenkins.

(Record p. 375.)

The CHAIRMAN. I find this letter of January 25, 1933, to Mr. Ernest Iselin, New York:

"At the request of Mr. Dockendorff, I am sending you herewith editorials from the *New York American* of January 17 to 21 and 24, which may be of interest to you.

The present attitude of the *New York American* is part of the work being done by the American Steamship Owners' Association as to which Mr. Dockendorff has advised you.

I remain,

Very truly yours,"

That is signed by the Secretary to J. E. Dockendorff. Do you remember those editorials?

Mr. DOCKENDORFF. No; I do not, but they must have been in connection with the movement that that committee was doing—trying to show what the American Merchant Marine meant to this country.

The CHAIRMAN. What did you mean by telling him it was the work of the American Steamship Owners' Association?

Mr. DOCKENDORFF. That is the association tending to that through this committee of which Mr. Jenkins is chairman.

(Record p. 179:)

The CHAIRMAN. Who made this report (exhibiting)?

Mr. BAKER. That is a memorandum, Senator, for the chairman of our committee on shipping information.

The CHAIRMAN. You further say that your office has been in touch with Mr. William Randolph Hearst, Mr. Arthur Brisbane, and Mr. Brand with respect to special articles?

Mr. BAKER. Yes, sir.

The CHAIRMAN. And the members have been advised as to the courtesy extended by the Hearst organization in the way of editorial support?

Mr. BAKER. The chairman.

The evidence shows that the Admiral Oriental Line of the Dollar interests had invested \$20,000 in first-mortgage collateral trusts of Hearst Publications, Inc.

Other illustrations of the manner in which the general public is deluged with tailor-made editorials may be found in the testimony of and concerning E. A. McKinnon, a self-styled "public relations" business man employed by the American Steamship Owners' Association:

(Record p. 182.)

Senator McCARRAN. Who does that work?

Mr. BAKER. Mr. McKinnon.

Senator McCARRAN. Does not that receive your approval before the work goes out?

Mr. BAKER. As to the facts contained.

Senator McCARRAN. In other words, the plan and policy have been that you would set up a set of facts, or Mr. McKinnon would, in the form of an article, and that article would receive your approval as to the facts; and then it would be sent out to the various organizations named by Senator Black a moment ago, and they would put that out as their expression?

Mr. BAKER. I think in some instances that is true; yes.

(Record p. 196-197.)

Senator McCARRAN. In other words, you promote or censor articles for publication?

Mr. McKINNON. I would not say "censor."

Senator McCARRAN. Well, you suppress it, then?

Mr. McKINNON. *Well, there have been times when there have been adverse matters that it has been policy to suppress* until there has been a change in public opinion.

Senator McCARRAN. What, if anything, is your connection with the American Steamship Owners' Association?

Mr. McKINNON. On November 9 I was appointed by the committee on ship-formation, director.

Senator McCARRAN. November 9 of what year?

Mr. McKINNON. 1932.

Senator McCARRAN. Director of what?

Mr. McKINNON. Shipping information.

(Record p. 201.)

The CHAIRMAN. Now, you make reference to Senator McKellar—"probably your most persistent opponent in the Senate"—and then you state that Senator McKellar might listen, "if it could be developed from a whisper into a roar." [Laughter.]

Did you ever get the roar?

Mr. McKINNON. I think we did, to a certain extent. However, I do not know that it has had any influence on the Senator.

The CHAIRMAN. Which part of the Tennessee press did you enlist?

Mr. McKINNON. *Daily and weekly*—

(Record pp. 202 and 203):

The CHAIRMAN. Did you have anything to do with getting that mailed—that material?

Mr. McKINNON. *Every line was prepared by us.*

The CHAIRMAN. Did you send it to them?

Mr. McKINNON. Yes, sir.

The CHAIRMAN. How was it put into the paper? As an editorial?

Mr. McKINNON. The caption is, "Of interest to all Tennesseans."

Mr. McKINNON. No, sir; *it went in over the signature and on the stationery of William Allen, of the foreign trade committee of the Mississippi Valley Association.*

The CHAIRMAN. I see. That was supposed to come from the Mississippi Valley Association?

Mr. McKINNON. Yes, sir.

The CHAIRMAN. In reality you had written it?

Mr. McKINNON. *We have written this for every State in the Union, practically.*

The CHAIRMAN. What other papers did this appear in?

Mr. McKINNON. In that one State?

The CHAIRMAN. Yes.

Mr. McKINNON. Elizabethtown, Tenn., May 18.

The CHAIRMAN. Did that have Mr. William Allen's name to it?

Mr. McKINNON. No; they took the material and made an editorial out of it, not using it word for word, but *on the basis of the material supplied they wrote an editorial.*

The CHAIRMAN. Well, we will not take time to go through all of them. You did have various articles sent by the Mississippi Valley Association in that section?

Mr. McKINNON. In their area; yes, sir.

The CHAIRMAN. You also had articles sent by Mr. Malcolm Stewart, did you not?

Mr. McKINNON. Yes, sir.

The CHAIRMAN. How much did you give him?

Mr. McKINNON. \$500 per month.

The testimony of Mr. Thomas R. Shipp, whose business is "the organization and conduct of publicity for clients, for corporations, and associations", is highly enlightening:

(Record p. 210):

The CHAIRMAN. Do you know Mr. Marcossou?

Mr. SHIPP. I met Mr. Marcossou several years ago.

The CHAIRMAN. Did you help him prepare his articles for the *Saturday Evening Post*?

Mr. SHIPP. The material was supplied from our office for his consideration. I don't know how much of it he used. I think he availed himself of some of the figures and material we prepared.

Senator McCARRAN. Mr. Shipp, where did you first get that material?

Mr. SHIPP. The material we sent Marcossou?

Senator McCARRAN. You say material was supplied.

Mr. SHIPP. Yes.

Senator McCARRAN. Where did you get it?

Mr. SHIPP. We got it from numerous sources. We got as much as we possibly could from the Steamship Owners' Association.

Senator McCARRAN. From your employers?

Mr. SHIPP. From our clients; yes. We got what we could from Mr. Jenkins.

(Record p. 213:)

The CHAIRMAN. What was the effort you made with reference to the articles by Mr. Helm, the correspondent who wrote the articles with reference to subsidy?

Mr. SHIPP. A member of my staff talked with Mr. Helm concerning the articles he had written for a Kansas City paper for which he was correspondent. We knew him very well and talked the subject over with him.

The CHAIRMAN. I notice here under date of January 25, "A somewhat similar program was submitted and it was proposed to contact Lowell Mallett, of the *Scripps* newspapers, but to date the only strictly *Scripps-Howard* stories that have appeared have been antagonistic rather than favorable." Did you make that report?

Mr. SHIPP. I think I did.

The CHAIRMAN. Did you contact Mr. Mellett?

Mr. SHIPP. I think a member of my staff did.

(Record p. 216:)

The CHAIRMAN. Let us see if this next one was an excess of zeal [reading]: "Held conferences with editors of *Washington Star* and *Washington Post*."

Mr. SHIPP. I think that is true.

The CHAIRMAN (continuing): "Explaining ocean mail contract with them which resulted in both papers publishing editorials in support of the contract."

Mr. SHIPP. I think we talked with somebody on both papers.

The CHAIRMAN. Who was it?

Mr. SHIPP. I don't know who it was.

The CHAIRMAN. Did you do the talking?

Mr. SHIPP. I did not.

The CHAIRMAN. Do you know who did?

Mr. SHIPP. I am not sure who did.

The CHAIRMAN. Where is Mr. Newman now?

Mr. SHIPP. He is here in the room.

The CHAIRMAN. Is Mr. Newman the man who talked to him?

Mr. SHIPP. It might have been that he was, because Mr. Newman was in charge of the account.

The CHAIRMAN (continuing). Arranged with chief of Washington bureau of the *Associated Press* for them to carry a statement interpreting mail-contract

situation in Congress. Wrote such interpretation and took it to Second Assistant Postmaster General Glover, who revised it slightly and approved it. Is that correct?

Mr. SHIPP. I think that is correct.

The CHAIRMAN. Who did that?

Mr. SHIPP. I suppose Major Newman did it, but it was done under my direction.

The CHAIRMAN (continuing). At Mr. Persons' request made contact with *General Pershing*, who was in New York; wrote a statement for him which was later read at conference.

Mr. SHIPP. I understand that the General did not make the speech we wrote for him.

The CHAIRMAN. He did not?

Mr. SHIPP. That is, he did not make any. He did not appear, but I think perhaps the speech was read, so we did not lose out altogether.

(Record p. 217):

The CHAIRMAN (continuing). At Mr. Pagin's suggestion, and with the approval of Mr. Jenkins, Mr. Newman went to Baltimore for conference with Mr. Ravenal, of the *Baltimore Mail*, for the purpose of enlisting the cooperation of the *Baltimore Sun* in support of mail contracts. Mr. Newman and Mr. Ravenal held conference for nearly an hour with Mr. Owen, editor of the *Sun*, and felt his interest had been aroused. Well, did you arouse his interest?

Mr. SHIPP. He never demonstrated it in his newspaper, but I think we did arouse his interest.

* * * * *

The CHAIRMAN. May I ask if you got anywhere in any of these matters?

Mr. SHIPP. In this personal contact?

The CHAIRMAN. Those I have just read to you.

Mr. SHIPP. Well, as Andy says, "I think we made an imprint."

The CHAIRMAN. How much were you getting a month?

Mr. SHIPP. We were getting \$1,000 a month fee.

(Italics supplied.)

The chief of the Washington Bureau of the Associated Press denied to this committee, by letter, that Mr. Shipp had "arranged with the chief of the Washington Bureau of the Associated Press" for the distribution of a certain statement respecting mail contracts, but stated in the communication of denial that—" * * * Mr. Glover did issue such a statement and the Associated Press carried it, but only after one of our reporters talked with Mr. Glover directly and ascertained that he alone was taking responsibility for the statement." (Record p. 344).

The testimony that this "news release" (for which an Assistant Postmaster General, Mr. Glover, took sole responsibility) had actually been written by a \$1,000 per month propagandist of the subsidized ship operators remains uncontraverted, and it is clearly apparent that such authorship was not revealed to the Associated Press.

The evidence also shows that upon one occasion the American Steamship Owners' Association passed a vote of thanks commending an officer of the Sun Oil Co. for the securing of publication of certain articles in the *Saturday Evening Post*. The Sun Oil Co. was interested in the Sun Shipbuilding Co. of Chester, Pa.

MONOPOLISTIC TENDENCIES

In more than one instance marine subsidy as heretofore administered has operated in a manner tending not only to create shipping monopolies but also to "freeze out" unsubsidized stevedoring firms, ship-repair enterprises, and towage services. As an example, it may be pointed out that the Lykes interests operate approximately 80

percent of all subsidized shipping from the American coast of the Gulf of Mexico to the Orient, the United Kingdom, and Europe. A complaint was filed before this committee by companies engaged in ship-repair work in Galveston, Tex., employing 195 individuals, protesting against the advantage given by the mail subsidy to the Lykes Brothers interests in competing with them in the ship-repair business. There is testimony also before this committee to the effect that the same interests have utilized their heavy fuel purchases to demand and receive the towage business of oil companies for whose business these interests are in competition with unsubsidized towing services.

The International Mercantile Marine, through the mail contracts operated by its subsidiaries and affiliates, and clauses protecting it from competition by Shipping Board vessels, has obtained a virtual monopoly of fast-freight and passenger service from United States North Atlantic ports to the ports of France, Germany, and the United Kingdom.

DISREGARD FOR LAW AND SOUND PUBLIC POLICY BY ADMINISTRATIVE OFFICIALS

Government officials, charged with the administration of this subsidy, have on various occasions taken illegal action, in some instances previously objected to by the Comptroller General, and in at least one case directly disregarding the expressed desire of Congress.

In spite of the fact that Congress had specifically forbidden the payment of any moneys on the purported contract of Seatrain Lines, Inc., the Post Office Department, under Postmaster General Brown, regularly dispatched mails under this contract. Such dispatch continued until the fall of 1933, when it was first brought to the attention of executive Post Office officials of the present administration and was promptly discontinued.

As a result of transactions involving the sale of a Shipping Board vessel, *S. S. Storm King*, and concessions on the sales price of certain stores, it appears that the Export Steamship Corporation was permitted to profit at Government expense in the amount of \$152,082.79. Without apparent authority in law, the United States Shipping Board Merchant Fleet Corporation has paid out in premiums on vessels sold by the Shipping Board to the Export Steamship Corporation \$457,457.19, \$240,000 of which has been repaid by the Export Steamship Corporation, leaving an outstanding amount of \$217,457.19.

The Comptroller General has consistently taken exception to the operating agreement of 1930, commonly known as the "lump sum" agreement, upon the ground that such agreements are illegal. Notwithstanding the expressed position of the Comptroller General, millions of dollars have been paid out under such agreements, some of which are still in effect. Appropriations, however, have been passed providing for payment under the operating agreement of 1930.

On November 14, 1932, the Comptroller General advised the Shipping Board that it was without authority to pay the United States Lines Co. to assume their extended liability in connection with prepaid tickets sold by the Government prior to April 8, 1929.

Prior to this ruling, however, and on September 16, 1932, the accounts in question had been assumed by the United States Lines Co., which for assuming the account, received from the Shipping Board \$216,639.96, and had disbursed to December 31, 1933 against the assumed liability, only \$18,731.

In the spring of 1929 the vessels of the American Merchant Lines and the United States Lines, regarded as the prize fleet operated by the United States Shipping Board, were sold to the United States Lines, Inc., for \$16,000,000, 25 percent of which was paid in cash. A large amount of stock in the United States Lines, Inc., was sold to the general public.

In 1931 the United States Lines, Inc., experienced financial difficulty in complying with the construction requirements of its mail contracts. As a result of this situation, which involved construction loans, the United States Shipping Board compelled the United States Lines, Inc., to name as 4 of its 7 directors, 4 nominees of the Shipping Board, Ira A. Campbell, Robert L. Hague, Edward N. Hurley, and Franklin D. Mooney. In the month of July 1931 the Shipping Board began to press for some reorganization of the United States Lines, Inc., and advised representatives of various steamship companies of its intention. The Board eventually offered for sale the notes of the United States Lines, Inc., in the approximate amount of \$11,000,000. The highest bid was made by a group composed of the Dollar, Dawson, and Chapman interests, the International Mercantile Marine being one of several unsuccessful bidders. The bid of the Dollar-Dawson-Chapman group, submitted on August 17, 1931, was not immediately accepted by the Shipping Board. However, on October 13, 1931, a contract was entered into between Messrs. Dollar and Dawson and representatives of the International Mercantile Marine Co. whereby the International Mercantile Marine Co. obtained an interest in the new company to be organized upon the acceptance of the Dollar-Dawson-Chapman bid. On October 30, 1931, the United States Lines Co., a Nevada corporation, organized pursuant to the bid of the Dollar-Dawson-Chapman group, and in which the International Mercantile Marine Co. had obtained an interest by the contract of October 13, 1931, entered into a contract with the Shipping Board for the purchase of the notes for \$3,170,900. While less important and more reasonable concessions had theretofore been refused to the United States Lines, Inc., by the Shipping Board, this contract made among others the following concessions to the new company. The contract provided for the redelivery of the *S. S. America* and the *S. S. George Washington* to the Shipping Board and the cancellation of the outstanding indebtedness on these two ships. The outstanding notes purchased amounted to \$8,983,620.56, which the new company purchased for \$3,170,900, a net reduction in the amount of \$5,812,720.56. All payments on the amount of \$3,170,900 were deferred for 3 years. No interest was to be paid on the outstanding indebtedness of \$3,170,900 until October 30, 1934, at which time interest was to and did begin to accrue at 4½ percent. Miscellaneous payables due the Shipping Board by the United States Lines, Inc., in the amount of \$196,168 were deferred for a period of 3 years.

The International Mercantile Marine Co. was represented in this transaction by Mr. Cletus Keating law partners of Ira Campbell,

placed upon the board of directors of the United States Lines, Inc., by the United States Shipping Board. Chauncey Parker, who as general counsel for the Shipping Board drew the contract of October 30, 1931, in which the concessions detailed above were granted to the new company in which the International Mercantile Marine Co. was interested, held 6 percent bonds of the International Mercantile Marine Co. in the amount of \$10,000. Postmaster General Brown, when he approved subcontracts on mail routes 43 and 44 by the United States Lines, Inc., to the new United States Lines Co., in which the International Mercantile Marine Co. had an interest, held over 4,000 shares of stock in the International Mercantile Marine Co.

In spite of the fact that the law gave the Postmaster General no power beyond that of making contracts to carry the mail, it is conclusively established that in letting these contracts no real attention was paid to the effect of such action upon the postal service. In every instance where, on grounds bearing no reasonable relation to "mail", the Postmaster General determined to let contracts for the carriage of the mail, he stood ready to and did certify the proposed service as a "mail route." The incorrigible optimism of the Postmaster General as to the "substantial volume of parcel post which might be developed" on routes whereon no mail moved when the contract was let has been equalled only by the ingenuity of the operators in making this optimism bear fruit in correspondence addressed by themselves to their agents abroad and especially earmarked for carriage by their "mail contract" ships (lest benighted postal employees, concerned with service rather than subsidy, dispatch it by speedier means), and even in transporting empty mail sacks.

The Postmaster General has advised the President that out of 43 such active mail routes only 12 are of substantial value as mail carriers, 8 are of slight postal value, 23 have no postal value whatever, and that a number of them are actually detrimental to the speedy transmission of the mails.

THE SUBSIDY DOES NOT ALWAYS REACH ITS INTENDED BENEFICIARY

While the clamor has always been made that our marine subsidy would provide funds for the payment to American seamen of wages set at a proper level, and substantially in excess of foreign wages, in many instances the proper wage scale has been cut and money transmitted to mail contractors in constructive trust for American seamen has been diverted by the contractors to their own private profits for exorbitant salaries and unearned bonuses. This practice and result is wholly indefensible.

SHORT-SIGHTED PSEUDO-PLANNING AND THE MYTH OF PRIVATE OWNERSHIP

While existing contracts under the Merchant Marine Act of 1928 contain provisions for construction of a few ships, no real consideration seems to have been given to the self-evident proposition that a merchant marine must renew itself continuously if it is to remain a factor in national defense and international trade. According to the Annual Report of the Postmaster General of 1933, only 20 out of

43 existing contracts required new ships. These 20 contracts specified a total construction of 51 ships, a pathetic figure when considered with relation to the construction program of other maritime nations. Twenty-eight of these ships have been built and one has been lost at sea. In addition to the 28 ships built under contract requirements, 1 other ship has been constructed by a mail contractor and certified for use on a mail route, but has been sold by the mail contractor to its parent company and is now being used as a "cruise ship." The construction of 23 more ships is required under the terms of the mail contracts. Thirteen contracts, other than those requiring construction, require reconstruction or substitution. Substitution has in some instances been construed to be effected by the use of chartered ships. Three other contracts contain conditional requirements for new tonnage and seven contracts contain no provision requiring construction, reconstruction, or substitution. *It appears that if all new ships required by the contracts are constructed and the old vessels now being operated remain in service, there will be in service when the contracts expire only 65 ships under 17 years of age. The majority of the remaining 268 vessels will have exhausted their economic life and the others will have an expectation of less than 4 years.* In addition, there may exist 41 reconditioned war-time vessels whose economic life is purely speculative. Obviously, our system of marine subsidy has not produced to date and will not, if continued in its present form, ever produce an adequate and efficient merchant marine.

As heretofore pointed out, the Government's investment in mail contract ships (excluding the industrial United Fruit Co.) is 1.39 times the stockholders' interest in all assets and the Government's fixed lien on certain vessels equivalent to 60 percent of the maximum value of all vessels under mail contracts. This indicates that the ideal of a privately owned merchant marine set up by the Merchant Marine Act of 1920 and 1928 has in no sense been attained, nor is such an ideal likely to be attained (if attainable at all) under a system under which those who are in theory to become the private owners calculate substantially as follows: "2 and 2 are 4; the Government should give us 2, and inasmuch as we do not have the other 2, the Government should loan us that 2, also."

Evidence before this committee demonstrates that exclusive of the industrial United Fruit Co. all present mail contractors are worth approximately \$80,000,000, of which amount approximately \$74,000,000 is invested in ships mortgaged to the Government for more than \$112,000,000. It follows arithmetically that the *entire industry* has only \$6,000,000 for other fixed assets and working capital. In other words, if all shore equipment and working assets could be supplied by bank loans, the entire industry would have only \$6,000,000 of its own money wherewith to embark upon a construction program, conservatively calculated to require the expenditure of not less than \$35,000,000 per annum over 7 years, a total of not less than \$245,000,000. When this actual picture of the present state of affairs is analyzed and it is remembered that the situation exists notwithstanding the use of ships built by the Government; the loan of millions of dollars of Government money and the expenditure by the Government of more than \$120,000,000 of so-called mail pay for the purpose of building up a privately owned American merchant marine, the prospect of attaining this ideal can only be described as far from bright.

CONCLUSIONS AND RECOMMENDATIONS

From the mass of evidence relating to the American Merchant Marine which has been uncovered, examined, and considered, it is possible to draw certain definite conclusions.

In the past the Government by managing-operator agreements on the percentage and lump-sum basis, and by mail contracts has subsidized ship lines, which did not then have, do not now have, and probably never will have, commerce and trade sufficient to make them self-sustaining. It has subsidized others, then and now, capable of earning fair—and in some instances large—profits without a dollar of Government aid. Having in mind the policies of the past, and the present regrettable status of the American Merchant Marine in which these policies have resulted, it is evident that certain decisions must be made, and that it is imperative for those decisions to be made *immediately*. It is abundantly shown that the present situation is intolerable.

The first question (and it must be decided upon the sole ground of public interest) is whether or not the Government shall expend taxpayers' money to create and maintain a merchant marine. This Government may, should it see fit, leave the business of shipbuilding and the operation of ships in foreign trade to the natural forces and elements of private business, and refrain from using public funds in these enterprises. If this course should be followed, it is believed by many that fewer ships would be built in America, and that some non-self-supporting ship lines would be abandoned. The natural result of declining shipbuilding in America would probably be the decline of facilities for shipbuilding to such an extent that this country would have inadequate shipyards capable of expanding the American merchant marine to necessary size under emergency conditions. Your committee believes, however, that many American ships would continue to operate without financial aid from the Government, and that if a constructive national policy were adopted, there would be developed a merchant marine commensurate to the commercial and national needs of the country.

However, assuming that the public interest requires the expenditure of Government funds to create and maintain an American Merchant Marine, a second and more complex problem is presented as to the *method* by which the Government is to create and maintain the desired merchant marine. There are several major alternatives which the Government may adopt:

- (1) It may provide for Government ownership and operation.
- (2) It may provide for Government ownership and private operation, the operation to be subsidized where this is proved necessary.
- (3) It may provide for private ownership and private operation, the operation to be subsidized where this is proved necessary.

Under any system of Government aid, the problem of construction and its cost is particularly important. Under the system which has operated up to the present, the Government has undertaken to supply the differences between the cost of construction in American yards, and the cost of construction abroad without reference to whether or not the cost of construction in the American yard was just and equitable. The cost of construction has been left entirely

to the private operator and the private shipyard. It is obvious that there can be no justification for payment of more than a reasonable price for the subsidized construction of ships. The cost of ships constructed for an American Merchant Marine with the aid of Government funds to be operated either by the Government or by a private individual should be rigidly scrutinized and provisions made to prevent profiteering in this business at the expense of the taxpayer. It is believed that ships for an American Merchant Marine can, and should be, constructed in private American yards. If, however, it be found impossible to secure private construction of suitable ships on reasonable terms and conditions, it will, of course, become advisable for the Government to construct ships in its own yards. No necessity excuses the payment of Government tribute to private monopoly.

GOVERNMENT SUBSIDY VERSUS GOVERNMENT OPERATION

Undoubtedly there are various trade routes wherein operations could not be carried on profitably. If it be deemed in the public interest for the Government to extend financial aid for such operations, an annual expenditure of millions of Government dollars must be expected. This expenditure is inevitable in such an undertaking, whether the ships be Government operated or privately operated but Government subsidized.

True Government operation implies that the business is conducted without hope or possibility of private individual profit and with complete Government control of the wages, salaries, working conditions, and activities of those employed therein. In such Government operations, if there is profit it inures to the taxpayer, and if there is loss it is borne by the taxpayer.

True private operation implies that private individuals supply the capital and operate and control the project for private profit, stimulated by the hope of profit to operate frugally and efficiently.

Business subsidized by the Government looks to the Government for a part or all of its capital. Government subsidy absorbs whatever losses are incurred in whole or in part. In the past, control of wages, salaries, working conditions, and profits of business subsidized by the United States has been vested in private individuals. In other words, while the Government has supplied, during the past decade, far more than 50 percent of the capital of enterprises engaged in foreign shipping, as the investor of the greater portion of this capital, it has not had that management and control which private investors would have had under the same circumstances.

As between true Government ownership and operation of a merchant marine and true private ownership and operation, your committee would favor the latter.

As between true Government ownership and operation and private ownership and operation subsidized by the Government, your committee believes that Government ownership and operation would best serve the interest of the people.

Private ownership and operation of merchant and aerial transportation with Government subsidy has resulted in a saturnalia of waste, inefficiency, unearned exorbitant salaries, and bonuses and

other forms of so-called "compensatiton", corrupting expense accounts, exploitation of the public by the sale and manipulation of stocks, the "values" of which are largely based on the hope of profit from robbing the taxpayer, and a general transfer of energy and labor from operating business to "operating on" the taxpayer. Measured by results, the subsidy system, as operated, has been a sad, miserable, and corrupting failure. Many of its apologists have been shown to be those who have directly received financial profit, or those, who for various reasons, have been influenced by those who did directly profit from it. Not the least of these influences has been the millions of Government dollars flowing through the hands of the immediate recipients, their associates, affiliates, subsidiaries, holding companies, and allies, into the treasuries of newspapers, magazines, and publicity agencies. Evidence before this committee has illustrated the existence and effect of these evil influences.

True Government operation has had only one trial. Although certain marine profiteers and some portions of the press have repeatedly asserted that the Government has lost huge sums by direct Government operation and drawn therefrom the unsound conclusions that such losses are inevitable in true Government operation, the truth is that this Government has not, since 1920, with the exception of one fleet, engaged in any such operation. The exception is the fleet operated as the United States Lines. After spending \$5,565,327.05 during a period of 4 years in the development and operation of this line in a manner similar to the development of lines privately operated, the Government, for the fiscal year 1927, showed a profit of \$404,017.12 in the operation of this line. During that same year so-called "private operations" on other Government-owned lines operated for private profit, cost the American taxpayers \$9,283,035.31. This was prior to the widespread decline in maritime business conditions. This line was sold to private interests in the year 1929 and has been privately operated since that time with the aid of huge grants of so-called "mail pay." The result of this single instance of true Government operation does *not* show the impracticability of such operation, but, on the other hand, demonstrates that true Government operation, under normal business conditions, has been and can be profitable.

As heretofore stated, Government losses persistently described by selfish interests as arising out of Government operations, have really resulted from private operations in the form of subsidized operating agreements variously called "managing-operator agreements", "lump-sum agreements", and "mail contracts." Under all of these, the private operators took the profits and the Government took the losses. Your committee believes from the experiences of the Government, particularly during the past decade, that it would be difficult and almost impractical to devise safeguards sufficient to save the taxpayer from the unfair and unjust extortions of persistent profiteers under a subsidy system.

This committee, therefore, recommends that whenever the taxpayers' money is invested in ships or shipping enterprises, the Government retain full and complete ownership and control. It is believed that loss and waste from such ownership and operation would be far

less than that which inevitably results from the subsidy system. Certainly the Government would not reduce the wages of its smaller paid workers and at the same time permit its agents and employees to profit from salaries, bonuses, commissions, and other forms of so-called "compensation" to the extent of one hundred thousand to half a million dollars in a single year, which have, in several instances, been the results of subsidy.

GOVERNMENT OWNERSHIP WITH PRIVATE OPERATION

As heretofore stated, your committee considers Government ownership and operation preferable to any system involving subsidy. As between Government ownership with subsidized private operation and *true* private ownership with subsidized private operation, your committee would unquestionably prefer the latter. Your committee, however, does not believe that it is possible to bring about the latter system.

Not all the Government aid which has been expended over a long period of years amounting to hundreds of millions of dollars with the practice of lending Government money for shipbuilding (which practice the President has stated should terminate) has been able to create a privately owned American Merchant Marine. It has been shown that the resources of private enterprises engaged in foreign shipping are wholly inadequate to finance the necessary construction program which has been conservatively calculated to require an expenditure of not less than \$245,000,000 at the rate of \$35,000,000 per annum during the next 7 years. It appears axiomatic that if the Government, by reason of its investment, is to be the *equitable owner* of the American Merchant Marine, it should retain legal title to the ships themselves, and with such title retain that complete control which accompanies legal ownership.

Government ownership with private subsidized operation should not, however, permit the iniquitous "managing operator" or "lump sum" systems of the past. The operation should be upon a charter basis or a profit-sharing basis, permitting no more than a reasonable profit for those private interests best equipped and experienced to operate the Government's fleets in an efficient and aggressive manner.

Your committee, therefore, recommends that whenever the taxpayers' money is invested in ships or shipping enterprises unless it be considered (as we consider it) in the public interest to provide for Government ownership and operation, that the system adopted provide for Government ownership with private operation.

SUBSIDIZED PRIVATE OWNERSHIP AND OPERATION

The Merchant Marine Act of 1928, according to its terms, was designed to create and maintain an adequate merchant marine ultimately to be owned and operated privately by citizens of the United States. While this act has been flagrantly maladministered, it is incapable, even if administered with maximum efficiency, of providing an adequate American Merchant Marine at reasonable cost.

Its *administration* has been distinguished by a startling disregard for the public interest. Public officials have been encouraged to believe that the Merchant Marine Act of 1928 actually meant what it did not say and that they should administer it (as they have administered it) upon this essentially unsound basis.

It is conspicuously devoid of those safeguards which should always accompany grants of public money to private persons for the effectuation of a public purpose.

Its administration was confided to the Post Office Department, then and now without the proper facilities for the administration of a marine subsidy.

Instead of an adequate American Merchant Marine it has produced unconscionable exploiters, intent upon wringing every possible penny from the public purse, while giving an absolute minimum of service in return. It has facilitated every conceivable form of holding company, subsidiary, affiliate, and associated corporate hocus-pocus. It has financially assisted favored operators in the protected and semiprotected trades against competition limited to unsubsidized American-flag enterprises. While it has given birth to a situation to delight unscrupulous, self-seeking individuals, it has caused the marine subsidy of this Nation with real reason to become known as "pie."

The Merchant Marine Act of 1928 should be repealed.

The history of marine subsidy in the United States does not encourage this committee to believe that such a subsidy is likely to be honestly administered in the future. Reserving to itself the right to doubt that it is possible to secure honest administration of such an act, this committee points out a few essentials which must be contained in any subsidy program. The following conclusions with respect to the administration of a subsidy apply with like force to a system contemplating Government ownership and private operation and to a system contemplating subsidized private ownership and operation.

The subsidy must be administered by fearless, uncompromising men, unsusceptible to the insidious influence of selfish interests. These men must bring to their difficult task intelligence, industry, candor, and courage, and minds single to the best interest of their country. They must *not* be compelled to take over entire the personnel of existing governmental agencies, shot through with the destructive propaganda of the past, but should be encouraged to avail themselves primarily of those now in government service who have resisted that propaganda and should be permitted to call others of like mind to their aid.

The system to be adopted must be as simple as the complexity of the problem permits. It must possess the maximum of elasticity compatible with existence of essential safeguards. Above all it must be no temporary subterfuge, but the candid crystallization of painful experience into permanent policy worthy of a great nation.

Specifically, this committee makes the following recommendations:

The marine subsidy should be divided into a construction subsidy and an operating subsidy, later to be discussed in detail. The construction subsidy should be available to all American shipping operators engaged in foreign commerce upon the same terms, and no

operating subsidy should be paid to a shipping operator whose business or interests are in the protected coastwise or intercoastal, or the semiprotected nearby-foreign trades, except that subsidy should be available upon the same terms to all American operators in cases where substantial foreign competitors operate parallel services, even in cases where the American operator is in the semiprotected trade.

No subsidy should be paid to any ship operator or shipbuilder who fails to maintain a uniform system of bookkeeping to be prescribed by the agency administering the subsidy, or whose books, files, and records are not open to the inspection of the designated employees of this agency.

No operating subsidy should be paid to any ship operator who fails to comply with Government-required manning and wage scales and labor conditions, or to provide the most improved equipment and trained personnel for the preservation of safety at sea, or who operates, charters, acts as agent, or has any financial interest directly or indirectly in the operation of foreign-flag tonnage. A substantial portion of the operating subsidy is designed to be received by American seamen. The rate of pay of the American seaman is generally higher than that paid by foreign nations, but in view of the many benefits provided for foreign seamen, which are not received by American seamen, it is doubtful if the *actual* compensation received by the American seaman is greater than that received abroad. Most certainly every effort to bring about security and better conditions should be encouraged, and it is a primary duty to see that this portion of the subsidy reaches its intended beneficiaries, thus encouraging an all-American personnel, which is an essential element of a truly American merchant marine.

No subsidy should be paid for the benefit of any operator whose financial or corporate structure, in the opinion of the agency administering the subsidy, permits the diversion of the subsidy into activities other than bona fide American-flag foreign-trade shipping enterprises, except that such subsidy payments may be made upon terms and conditions prescribed by the agency administering the subsidy sufficient to protect the Government against such diversion, nor should any construction subsidy be paid to any shipbuilder whose activities are not confined to shipbuilding and ship repair.

No subsidy should be paid to any operator or shipbuilder who pays or causes to be received by any officer, agent, or employee (which terms should be construed in the broadest sense to include, but not to be limited to, managing trustees or other agencies) wages, salaries, or compensation exceeding in amount or value the sum of \$17,500 in any one year.

No subsidy should be paid to or for the benefit of any ship operator or shipbuilder whose private capital, in the opinion of the agency administering the subsidy, is insufficient to insure a reasonable likelihood of continuous successful operation with a fair amount of Government assistance, or which in the case of an operator is unwilling to provide for an adequate replacement program for its fleet.

The purpose of a construction subsidy is to increase the building of ships for foreign trade in American yards by equalizing the cost to American citizens of constructing them in American yards and placing them in operation on foreign trade routes with the cost of

constructing the same ships in foreign yards and placing them in operation upon the same routes. The present system of construction loans should be abolished, but the ship operators should be free to borrow from governmental agencies (other than the United States Shipping Board, whose power to make loans should be abolished) upon equal terms and conditions with other private enterprise. The construction subsidy should equal in amount the difference between the cost of similar first-class construction in that foreign yard where construction by the operator is, in the opinion of the agency administering the subsidy, most economically practicable plus an amount equal to that required to place the vessel in operation at a point equal in advantage to that point where it will be placed in operation by an American yard without added cost to the operator and the *reasonable* cost of American construction. This amount should be paid directly by the Government to the shipbuilder. No such subsidy should be paid to any shipbuilder unless its wage scale is, in the opinion of the agency administering the subsidy, sufficiently high to equal the wage scale for similar services in foreign yards plus that portion of the subsidy properly allocable to shipbuilder's wages. In the judgment of your committee, it is impossible to prescribe the exact formula for the computation of foreign construction costs. This conclusion is borne out by the testimony of Alfred H. Haag, Chief of the Division of Shipping Research of the United States Shipping Board Bureau, before the Committee on Merchant Marine and Fisheries of the House of Representatives on May 6, 1935, when he stated that he knew of no method by which this cost could be determined. For accuracy and fairness in such computations it will be necessary to rely upon the initiative and integrity of the officials administering the subsidy program, whose calculations must, in great part, be based on what amounts to hearsay evidence.

Subsidy payments to the shipbuilders should be subject to recapture. When at the end of any calendar year the cumulative profits on the true investment exceed 6 percent per annum calculated from the enactment of the new subsidy program, 75 percent of profits exceeding 6 percent should be paid to the Government until subsidy payments theretofore made to the shipbuilder have been retired.

No vessel, the construction of which is subsidized, should be permitted to operate other than in foreign trade, except with the consent of the agency, and the agency should specifically be denied authority to consent to such operation until there shall have been repaid an amount which bears the same proportion to the construction subsidy theretofore paid as the remaining economic life of the vessel bears to its entire economic life.

No such vessel should be transferable to foreign registry except under similar terms and conditions and under no circumstances should any such vessel be so transferred unless provision be made for American construction and registry of tonnage of at least equal value to the American merchant marine.

The operating subsidy should equal the differential between the operating cost of the American operator and the operating cost of that substantial foreign competitor operating most cheaply in that service, foreign subsidy being taken into consideration. As in the case of construction differentials, your committee is of the firm opinion that

it is, and always will be, utterly impossible for an agency of this Government to determine accurately the true operating costs of foreign ships owned and operated by foreign citizens whose records are maintained in foreign countries. In view of this fundamental precept, the operating subsidy should be subject to recapture and should be returned to the Government in the same manner as heretofore provided with respect to the construction subsidy.

There is considerable force in the theory that no profit other than compensation for personal services in the form of reasonable salaries should accrue to private individuals from activities aided by Government funds. In no event, however, can there be valid objection to a system (such as that herein set out) providing for the *possibility* of the return of the subsidy in whole or in part where cumulative profits make this possible. This percentage-division of profits in excess of a cumulative average of 6 percent per annum will permit both the recapture of excess subsidy by the Government and the creation of reasonable reserves by the private operator.

No operating subsidy should be paid to any line operating in competition with an unsubsidized American-flag line rendering adequate service upon a foreign-trade route.

The subsidy program should not be administered by any existing governmental agency but by an entirely new, absolutely independent establishment. The administrative heads of the agency should be subject to removal by the President for inefficiency, neglect of duty, or malfeasance in office, and their terms of office should not be so long as to preclude effective supervision by the Senate. It should not be necessary for this agency to concern itself with regulatory functions which should be exercised by the Interstate Commerce Commission. This new agency should, in addition to administering the subsidy, assume all of the duties, other than regulatory, now vested in the United States Shipping Board Bureau and the Merchant Fleet Corporation of the Department of Commerce.

No person should be eligible for appointment to any executive or supervisory position in the agency administering the subsidy who has or has had within a period of 3 years prior to appointment, any financial interest in any shipping, shipbuilding, or ship repair company, its subsidiaries or affiliates, or in any business or concern deriving a substantial portion of its revenue from such sources, or who has, within 3 years prior to appointment, been employed by any such firm, person, company or corporation aforesaid. The acquisition of any interest in any such business or the receipt of any gratuity or valuable thing from any such source should be ground for immediate dismissal of any officer or employee, and the acquisition of any such interest or the receipt of employment, compensation, gratuity, or valuable thing by any immediate relative of an employee should also be ground for dismissal, if, in the opinion of the appointing agency, such action is required in the public interest.

All existing mail contracts let under the Merchant Marine Act of 1928 should be terminated. The effective date of cancelation should permit a reasonable time within which adequate service can be provided under the new law. Within such reasonable period, to be provided by Congress, the holder of any ocean mail contract should be entitled to adjust with the agency administering the subsidy all

claims between the contractor and the Government growing out of its mail contract, excepting speculative or prospective future profits, and such settlement should be final.

If such settlement and adjustment is made, the company previously holding the mail contract should be eligible to apply for and to receive the benefits under the new act.

Any mail contractor failing so to settle its claims against the Government should be entitled to sue in the Court of Claims for just compensation.

In all suits so filed the Attorney General of the United States should be directed to seek damages in the full amount paid out under any contract which has been found by the Postmaster General to have been left without competitive bidding, and to urge all proper legal defenses and assert all just claims in all suits filed by mail contractors.

The Postmaster General should be further authorized to transmit ocean mail in the most expeditious manner possible and at existing poundage rates, giving a reasonable preference to American-flag vessels.

Before closing this report, your committee desires again to stress the necessity for immediate action by Congress. In his message of March 4, 1935, the President stated that:

An American merchant marine is one of our most firmly established traditions. It was, during the first half of our national existence, a great and growing asset. Since then it has declined in value and importance. *The time has come to square this traditional ideal with effective performance.* (Italics supplied.)

In the report of the Postmaster General, as well as the report of the Interdepartmental Committee on Shipping Policy, it is conclusively demonstrated that the present system is unsound, unsatisfactory, and cannot provide what the President rightly states the American Government owes to its people, that is, "ships in keeping with our national pride and national needs." Your committee is convinced of the immediate necessity of enacting laws which will provide such ships to serve the needs and justify the pride of the American people and to that end it urges instant action.

In the Senate's consideration of any proposed legislation, your committee specifically invites attention to the present appalling lack of resources in the shipping industry and presents the inescapable question as to whether this wholesome desire for upbuilding our merchant marine shall be fulfilled by an aggressive governmental program, or shall private interests be entrusted to bring about the desired results *with money they do not now have*, and which it is readily apparent they cannot secure except from governmental sources.

The conclusions and recommendations contained in this report are submitted for the sole purpose of making available to the representatives of the American people factual information vital to the efficient performance of their duty. Much of this information has hitherto been unavailable. Some of it has been carefully and effectively concealed. This report is submitted in the hope and with the desire that it may be of service in bringing about immediate, candid, and

courageous congressional action, reasonably calculated to create and maintain an American Merchant Marine worthy of this Nation.

Respectfully submitted.

HUGO R. BLACK.
WILLIAM H. KING.
PAT McCARRAN.

Senator King approves the report with the following statement of exceptions:

Though I signed the foregoing report, it was with the understanding that I did not agree with all of the conclusions and recommendations.

I believe the report to contain a fair and accurate statement of the facts disclosed by the record.

I have not been in accord with the policies of the Government in granting subsidies and bounties to shipping interests, and insofar as the report approves of bounties or subsidies or the operation by the Government of a merchant marine I do not approve of the same.

If, however, bounties and subsidies are granted, then I believe that every possible safeguard for the protection of the Government and the taxpayer should be provided. The safeguards recommended in the report would fairly meet the requirements and should be embodied in any subsidy legislation.

The United States had for many years an adequate merchant marine which carried from 83 to 87 percent of our foreign commerce. Unwise legislation drove American ships from the seas and almost destroyed our merchant marine. In my opinion an American merchant marine can be developed and operated without bounties or subsidies.

The Democratic Party has upon a number of occasions denounced subsidies and some of the best thought of our country has believed that an adequate merchant marine was not only possible, but certain, if measures were enacted removing restrictive legislation destructive in its application. I cannot believe that with the genius, wealth, and commerce of the United States, bounties or subsidies are essential to the building and operation by private capital of a merchant marine.

Undoubtedly, if American citizens were not prevented from purchasing ships built in foreign countries and operating them under American registry and under the American flag, one of the obstacles to the realization of an effective merchant marine would be removed. The repeal of other statutes would aid in providing an effective and adequate merchant marine.

A sound and rational tariff policy would produce important results and materially aid in the establishment and maintenance of a merchant marine.

WILLIAM H. KING.

Star Route, Salem, Ohio.

8-7-1933

E. B. Gaston

Fairhope, Alabama:

Friend:

We do not know how things are done down there, so are writing, hoping thee will be willing to tell us.

We would like to know about when & how much rental & taxes are to be paid on the property we recently acquired from Thomas Blackburn. We would also like to sell if a responsible buyer could be found: & if not we want to rent for a fair price.

Thanking thee we are
Respectfully

Abbie E. & Mary Blackburn
Star Route, Salem, Ohio.

August 14, 1933.

Abbie T. and Mary Blackburn,
Star Route, Salem, Ohio.

Friends:-

Your letter of 7th at hand, requesting information of the standing of matters, here, especially in connection with the property recently acquired by you from Thomas Blackburn.

Replying would say that this is a nice little property, would make an excellent hom for some one and a living ought to be made from the fruits and nuts growing on the place, in connection perhaps with chickens. It is located on a good road just a quarter mile from the town limits.

Conditions, in general are slow here, however, as they are elsewhere according to all reports.

The Colony rent on the property is only \$15.22 a year, this is payable semi-annually, the first half being due the first of January, and the second half due the first of July. The rent for all of January is paid and the taxes for 1932 have been paid and the receipt applied upon the rent.

The taxes for 1933, (presumably the same as for 1932 \$14.28) will be due October first, and if paid and the receipt turned in to our treasurer, will pay the ~~taxes~~ rent to our Corporation for 1933, within a few cents.

Please note that the taxes I refer to are the taxes upon the improvements only--the tax upon the land being paid by our corporation with other lands.

Your case is one in which you are clearly a beneficiary of our Colony, having nothing invested in land and the rent being less than the taxes taking land and improvements together.

At the present time no property is selling up to its value. I look for some improvement in this respect.

We have only two active real estate agents in Fairhope, G.E. Perkins and Carl L. Bloxham. I suggest you write one or both of them as to selling or renting this property.

Yours very truly,

Feb. 17, 1934.

Clara E. Blumer,
Secretary-Treasurer.
Henry George Club of Lincoln,
Nebraska.

Dear Madame:-

I must apologise for not having earlier replied to your favor of Jan. 19. However, it was received just after I had received one of similar tenor from Mr. A.G. Chapman of your group evidently, to which I had replied and I thought he would doubtless be in touch with you.

I am however, sending you an assortment of printed matter, which I trust may prove of interest to you and give a fair understanding of our aims and methods.

I have not heard anything from Mr. Chapman since writing him.

With very best regards to you and all the good Georgians there,

Most sincerely yours,

Lincoln, Nebraska
January 19, 1934

Mr. E. B. Gaston, Secretary
Fairhope Single Tax Colony
Fairhope, Alabama

Dear Mr. Gaston:

We have recently organized a Henry George Club, in Lincoln, and are interested in getting as much information as possible about any group which has even partially put into practice the theories of Henry George. Do you have any folders or pamphlets describing your venture? I have thought what you have accomplished, if read or related at one of our meetings, would be very interesting to our members. May I have a reply from you and if you have no pamphlets, will you not please write a short description of what you have been able to do, and also give me a list of any other groups you know of who are doing what your group is.

Thanking you kindly, in advance, for your courtesy, I am

Very truly,

THE HENRY GEORGE CLUB OF LINCOLN

Clara E. Blumer

Clara E. Blumer,
Secretary-Treasurer

Enc. Env.