WILEY

The Atlantic Shipping Combine

Author(s): B. W. Ginsburg

Source: *The Economic Journal*, Vol. 13, No. 50 (Jun., 1903), pp. 197-203

Published by: Wiley on behalf of the Royal Economic Society

Stable URL: <http://www.jstor.org/stable/2220885>

Accessed: 26-06-2016 12:54 UTC

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at

<http://about.jstor.org/terms>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Wiley, Royal Economic Society are collaborating with JSTOR to digitize, preserve and extend access to
The Economic Journal

THE ATLANTIC SHIPPING COMBINE.

THE intimation published in the latter half of April that the old established shipbuilding Company known as Messrs. Cramp's of Philadelphia has passed into the control of the Morgan group of financiers may prove to have a very considerable bearing on the future history of the world's shipping. Judged by American standards—I mean, of course, the amount of money involved in the deal—the matter may seem trifling enough. Messrs. Cramp's plant is only valued at, say, two and a half millions sterling, a sum which seems inconsiderable in relation to the nominal capital of the Combine and, indeed, to the paper price paid for the White Star fleet. Yet I venture to think that the result of this acquisition may be very far reaching.

We have, in the first place, to remember the peculiar position which the firm of Messrs. Cramp occupied. There are other important ship-builders in the United States, but there is no other which has produced ships of the class which have come from this Delaware yard. The Atlantic Combine deals primarily with Atlantic liners, though the flags of its affiliated Companies are indeed seen on every main trade route, and Messrs. Cramp are the one firm which, during the last forty years, have constructed vessels in American yards for the Transatlantic trade. It is true the ships are not numerous—they might almost be counted on the fingers of one hand. But such as they are they stand alone. The 'sixties saw the cessation of construction of the wooden paddle steamers which made Mr. Collins' name, though they cost him his fortune, and thereafter till recent years, there was nothing built in American yards for the Atlantic competition save three or four slow passenger and cargo steamers which Messrs. Cramp provided for the old American Line in the early 'seventies.

The beginning of a return of American interest in the Atlantic was observed when the old Inman flag and fleet was purchased by the new American Line which then got control of two

important ships in the *City of Paris* and the *City of New York*, at that time amongst the largest and fastest vessels afloat.

The American law, then, as now, refused registration under the Stars and Stripes to ships not built—or, at least, re-constructed—in American yards, and the anomalous position was achieved whereby a fleet, essentially American, had to sail its ships under the British flag. The patriotism of the American people and the business requirements of the managers of the line required that this position should not continue, and as every one knows, a special Act of Congress was passed to permit the *New York* and the *Paris* to be nationalised, and hoist the Stars and Stripes. Yet even in so exceptional a case a heavy exaction was demanded of the owners of these two ships. Congress granted the privilege of nationalisation only on the condition that two ships of equal power and size and speed should be built in an American yard. The condition was accepted, the price was paid, and the two steamers *St. Louis* and *St. Paul* were constructed at Philadelphia by Messrs. Cramp.

This reference to what is already ancient history has its importance at the present time, for it gives us an indication of the strength of the feeling of American shipbuilders against allowing British built steamers to come on the Register, and of the political power of Messrs. Cramp in enforcing so heavy an obligation on the American Line. There can be no reason to suppose that shipbuilders have changed their views in this regard, and it is certain that Messrs. Morgan have done a very astute stroke of business in securing that so powerful an interest shall in future be ranged on their side.

But what of the Combine as a whole? How far does it indicate that the command of the sea is passing from our hands to that of our American cousins? I venture to think that there is no reason whatever for our being exercised about it. The expenditure of capital cannot permanently change the direction and force of natural economic laws in really large fields of industry such, for example, as the world's merchant marine, where aggregate values must run into, say, nine figures, and where no absolute monopoly is attainable. Those who have studied the question seem to be agreed that, though the decadence of the American Mercantile Marine in the commerce of the world was undoubtedly coincident with the Civil War, and though it cannot be denied that much of the country's tonnage was then driven under other flags, it was not the ravages of the *Alabama* and the other Confederate cruisers which effected the decline.

The old sailing vessels which had borne the Stars and Stripes in every trade, were fully as efficient as, and in many cases actually better than, the ships of other nations with which they competed. The ships of the United States could be constructed of the timber of their country's forests, whence supplies of cheap material were procurable to an indefinite extent. The ingenuity of the Americans enabled the wage bill to be kept down by the adoption of mechanical devices and economising labour such as, for example, the double top-sail yards. It was the displacement of the wooden ship by that of iron which was one factor in the movement; another was the substitution of steam for sail in the ordinary carrying trade of the world. America has now comparatively cheap iron and cheap coal. But at the time when the transition was taking place elsewhere these commodities were not available to an extent to aid her, had she desired to resume her place as a mercantile marine.

But, in truth, one does not incline to the opinion that her people ever troubled themselves about the matter. We have it on record that at the time when his misfortunes had made Mr. Collins most dependent on the support of the National Exchequer for the means to keep his flag flying on his Transatlantic mail line, Congress withdrew his subsidy. That was actually previous to the war, and it would seem to be an indication that even then the mind of the nation was turning from the sea and concentrating itself on the development of the internal resources of the country. After the attainment of peace, it is obvious that capital had many lucrative outlets in the making good of the wastage of war, and in the development of the Confederate States. There was no attempt made to compete in the oversea trade. The country was now steadily pursuing its Protectionist policy, and, for its internal development, needed population and workers. There was plenty of occupation ashore for American citizens. The West and the Mining Camps offered full attractions for those of adventurous spirit, and there was no need for them to turn towards the sea. Labour was costly because of the Protectionist policy, and the rates of remuneration for labour in connection with shipping had to be ruled, not by the rates prevailing in home industries, but by those which prevailed in the marines with which American ships would be in competition. This question of the cost of labour is obviously one of the highest importance in regard to the question we are discussing. For almost above everything else the steamer depends on labour. In her construction there is obviously the labour of putting her

together, but behind that there is also the labour which wins and prepares the iron or steel of which she is so largely composed. In her working, again, there are not only the wages of the crew to be considered, but there is the labour required in her loading and in her repairs, whilst the coal which her furnaces devour largely owes its value to the labour expended in obtaining it. That being so, American ships were naturally expensive to build and run in competition with vessels of countries where labour is relatively cheap.

This all seems, perhaps, obvious enough. But the point I want to make is to show not only that the position was against an expansion of the American Mercantile Marine on the ocean—as distinguished from the coasting and lake trades—but further to prove that it is not at present changing in any marked degree for the better. Ships are still costly to build in the United States. Within the last six months a correspondent in the *Shipping Gazette* has made a comparison in prices which may be perhaps instructive. He quoted the fact that there had just been placed on the Clyde an order for a steamer to carry 5,100 tons dead weight on 20 ft. 6 in. draught at a speed of eleven knots. The contract in this case was for £45,000. This was contrasted with the contract made about the same time by the Clyde Shipping Company of New York with Messrs. Cramp, of Philadelphia, for the new steamship *Huron*. That vessel is certainly a twelve-knot vessel. But a knot at that rate of speed is far from being as important as one becomes when we are discussing higher rates. She was, however, only to carry some 3,000 tons—or less than two-thirds that of the Scotch built vessel—yet her cost was put at \$350,000 or £70,000; a full 55 per cent. more than that of the ship constructed on this side of the Atlantic. This, too, is in spite of the fact that the Americans are supposed to have achieved a far larger measure of success than our own shipbuilders in the practical adoption of such labour-saving appliances as electrical and pneumatic rivetters and Boyer tools.

Then let us look for a moment at the relative cost of wages in the three principal mercantile marines in this competition.

In the report of the American Commission for Navigation, published at the end of the year 1901, the question of the difference in wages on American and other vessels was discussed in detail. It was stated that the pay roll of the steamship *St. Louis* of the American line (excluding the salary of the master) was

\$11,300 for 380 persons, whilst that of the White Star liner *Oceanic*, sailing under the British flag, and then purely British, was but \$9,900 for 427 men. Further, in the case of the German fast ship, *Kaiser Wilhelm der Grosse*, the figure was but \$7,715 for 500 persons. I think one observation should be made in considering these figures, namely, that the number of officers who are, of course, most highly paid, would only vary comparatively slightly in the three ships, whilst the rate of pay of these would not be much affected by the size of the vessel—the master or chief officer of a 20,000 ton steamer would not, as such, get more than the master of a 15,000 ton vessel. The increase in numbers is chiefly in the lower ratings, such as stewards to attend on the more numerous passengers carried in the larger vessels, and firemen to feed the furnaces of the more powerful machinery. It would scarcely be fair therefore to divide the gross total of wages paid by the number of men carried, and imagine that by doing this one attained a comparative mean rate. But the fact certainly is proved that wages are much higher in American than in European vessels, and somewhat higher in British than in German.

From these two quotations I venture to think that I have established the fact that there is no economic reason why Americans should be pressing into the carrying trade of the world. Conditions of economy would tend to limit their work in competition with other nations. We must turn then in other directions for the motives of those who brought about the Combine. These are not far to seek. Most of them have been put forward previously and have already been much and thoroughly discussed. The organisation of means of transit, both in their own and this country, seems at the present time to be very attractive to the American capitalists. Such organisation is very profitable to its promoters. In re-arrangement of capital there are opportunities for the acquisition and retention—of course in a perfectly legitimate way—of premiums and of commissions. So much has been done in the way of organising land transit in the States that it was not unnatural that an attempt should be made to exploit the sea in the same way—especially as the attractive suggestion of the provision of a through bill of lading from the interior States to British ports of delivery could be put forward. Once the idea was mooted, the means taken to carry it through were conceived and executed with American ingenuity and business aptitude. The Leyland Line, recently placed under American

control by the sort of arrangement I have indicated, was used as a bugbear to frighten the managers of British lines with a threat of ruinous competition in rates. The White Star Company, a line whose reputation stood peculiarly high, was in a position—owing to the large proportion of new tonnage which it had recently constructed—which made its managers very properly at the moment afraid for their shareholders' sakes to engage in a possibly disastrous conflict. They, therefore, were wise to accept the very liberal price which was offered to them. When they went the others followed with the result that has been seen.

But the boasted American management of steamships has yet much to learn. To attempt to make a return on the inflated paper capital of the Combine, recourse has been had to petty economies whose unwisdom has long been recognised by British shipowners. The officials of the old companies, on whose integrity and loyal service so much of the prosperity attained was due, have been unsettled and alarmed by the methods adopted towards them. The masters of the ships—men to whom values reckoned almost by millions, and human lives numbering, in some instances, thousands are entrusted—have had their emoluments, none too heavy at any time, pared down. Then we have the notorious case of the *St. Louis'* last westward voyage. No British company in the Atlantic passenger trade would have sent the ship to sea, knowing the condition in which her boilers were acknowledged to be. Certainly if they had so risked it, no English business men would have volunteered the information—when the ship was still unreported—that they had taken so great a risk for their passengers.

The possibility of the Combine ever making a return to its ordinary shareholders is remote enough. The Stock Exchanges recognise that, for the certificates, which changed hands at about 15 per cent. of their face value just after they were placed on the market, have since fallen considerably, even from that low figure. The experience of the once successful Leyland Line—whose huge profits in 1899 and 1900 tempted the financiers to take hold of the business—is further proof, if proof were needed, of the impossibility of paying interest on such watered capital. This concern has not only failed to earn a dividend for its ordinary shareholders, but had to take £65,000 from reserve to pay the return on its preference shares. Whether the business is a good one for the shareholders or not is a matter for them. But

the public is concerned to know whether our great shipping industry is or is not threatened by the entry of a new and powerful competitor. My own belief for the reasons I have given is that there need be no fear. The whole thing is simply a matter of the new finance.

B. W. GINSBURG