

SUBSIDIZING MERCHANT MARINES

The three distinct phases of the subsidy question which it is proposed to treat in this paper are: I, subsidies, direct and indirect; II, naval and commercial restrictions and regulations; III, artificial and natural influences affecting commerce.

I

The objects of direct subsidies are, first, to secure an actual service from owners of vessels—commonly, in times of peace, the carriage of mails, and, in times of war, the use of their vessels for cruisers, colliers, or transports; and, second, to establish trade with foreign lands by offering adequate transportation facilities. In so far as these motives can be distinguished, subsidies of the first order—namely, to secure service—may be referred to as imperial subsidies; those of the second order—to establish trade—as commercial.

1. *Imperial subsidies.*—Fundamentally, the subsidy for imperial purposes is offered to bring the different parts of an ocean-empire closer together by a quick mail service, and to secure in times of war additional protection of the merchant marine through additions of fast merchant vessels to the navy. A subsidy may likewise be imperial in character—though it is difficult to state whether it is for postal, naval, or trade purposes—when it is given to keep a fleet of merchant ships in existence as conveyors of food.¹ Thus England, as an island state, feels that a merchant marine must be maintained at any price, and though she has no real reason for alarm at present, nevertheless her statesmen have long confronted the food-supply problem. Here, too, we face the general question of policy involved in the subsidization of merchant vessels to act as armed cruisers in time of war; a policy favored commonly by those who believe in efficacy of commerce destroyers, but strenuously opposed by those who are disposed to emphasize the disastrous consequences which must follow the laying-up of the slow boats and the use of the fast ones as cruisers in time of war, with the necessary interruption of commerce and the great increase of insurance and freight rates.

¹See Sir R. Giffen, testimony, Report of the House of Commons Select Committee on Steamship Subsidies, 1902, Q. 46.

Such a result would mean not only a reduction in volume of commerce but the complete loss, through capture by the enemy, of such goods as were intrusted to slow tramp steamers.²

In time of war, it appears, naval authorities usually hesitate to use vessels subsidized, for fear of breaking up communications with the outside world—more especially when the nation at war possesses over-sea colonies. Consequently, the device of subsidizing fast merchant vessels has been reduced to the mere listing of them in consideration of an annual payment, to prevent transfer by sale to the enemy. The owners, it is true, agree to build the vessels in accordance with naval specifications, maintain a certain rate of speed, and be ready to turn the vessel over upon demand. But, as suggested, the money subsidy is often lost so far as the use of the vessels in a war period is concerned, because of the fear, already expressed, that withdrawal of fast vessels from a mail line will destroy communications with neutral nations.³ In case the nation is willing to forego such communication, and able to maintain herself from her own resources, such vessels may be used as commerce-destroyers, but even then they are of little value when brought to bay by the armed and protected cruisers of the enemy. It is therefore a question whether the money spent for such subsidies might not be better used to build protected cruisers, which will be at the command of naval authorities at all times without the necessity of meeting the problem of crippled communication.⁴

A postal subsidy may be regarded as imperial in that it is not dependent upon commercial conditions. The company accepting such a subsidy agrees to make a certain number of voyages a year

²Testimony of Sir John Colomb, *ibid.*, QQ. 2099-2104.

³It might be urged to the contrary that the subsidy was not lost in the case of the "St. Paul" and of the "St. Louis" used by the United States government during the Spanish-American War; but in this case there was no danger to American commerce.

⁴"Question 664: A vessel not able to steam more than fifteen knots, having no armor, having no guns on board, probably only a gun platform to fire off a gun which is in store on shore, can in no sense be called an armed cruiser, can it?

"Answer: Not at all; they are just as liable to be captured by the enemy as they may capture a merchant vessel.

"Question 666: Would not you rather send a swift torpedo-destroyer against those vessels?

"Answer. Certainly."

(Testimony of Hon. George Renwick, Select Committee on Steamship Subsidies, 1902.)

in a given time; their vessels must be ready to leave port at stated and regular intervals regardless of the amount of the cargo. Such a subsidy is "a price paid for certain specific advantages to the post-office and the community, and to compensate for certain specific disadvantages to the recipient of the subsidy."⁵ In order to equalize the costs of long distances and high speeds, the postal subsidies contain in the contracts a sliding scale under which the compensation increases with distance and speed attained. The rates paid, however, may differ materially. In England payment is made for service rendered; in other lands the payment may be for more than the actual cost of carrying the mails at the international postal rate. In this instance the subsidy partakes of the nature of a bounty.⁶ A real difficulty exists in any attempt to separate a subsidy into its different parts; for a government pays the given sum for regular communication, vessels of high speeds, construction, equipment, and crews of a certain nationality. Where a postal subsidy is granted, there may be a direct understanding that a vessel may be used in time of war. Here the imperial and postal elements are contained in the same subsidy.

The points of the imperial and postal subsidies are well brought out in the agreement made by the German government with one of the German steamship companies. In this contract the company agrees that (*a*) no foreigner can be on the board of directors, (*b*) all agents or persons employed must be German subjects, (*c*) the vessels must be built in Germany of German material, and from plans approved by the naval authorities. (*d*) In case foreign competing vessels increase their rates of speed without compensation, the German company must do the same without extra remuneration; and (*e*) in replacing a steamer not more than eighteen months must elapse, under a penalty of £15 per day. (*f*) Whenever the imperial navy is mobilized, the government has power to buy or employ the steamers; (*g*) nor can the company sell or hire any vessel without the approval of the chancellor. (*h*) Even the making of rates rests finally with the officer named; (*i*) while the company must secure permission from the government to carry the mails, goods, or passengers of other nations. (*j*) The chancellor may exclude any agri-

⁵Testimony of Mr. Farnall, of the English Post-Office Department, *ibid.*, 1901. A. 732.

⁶Testimony of Mr. B. Forman, *ibid.*, 1901, QQ. 862-65. *Journal of Political Economy*, December, 1900, p. 29.

cultural products which compete with German ones. (*k*) The company must carry government officers and naval invalids at special rates. (*l*) The engine-room complements must be Germans, either time-expired naval men or volunteers who agree to serve in steamers if leased in war time. For these restrictions, regulations, and requirements the company receives the sum of £ 67,500.⁷

As to the value of these points in the agreement much question might arise. It may be taken for granted that a mail subsidy should contain speed clauses based, not on what the vessel may reasonably do, but on what the vessels of other nations are doing; while in reference to the control of rates and cargoes it is more than likely to prevent that adjustment of commercial conditions to the enlargement of commerce and trade necessary for rapid advancement in such lines. The same statement might apply to crews and officers. Economic conditions on shore determine the supply of the men on the sea, and the steamship companies might find it impossible to secure the necessary number of men to man the vessels, if held too closely to the requirements. In its comments on naval requirements the Select Committee of the House of Commons stated that in their opinion the principles of subsidies is justified only in obtaining a limited number of vessels of high speed and coal endurance built according to naval specifications for national defense, when the government is not able to build war vessels. The committee was of the opinion further that subsidies were of slight value as retaining fees; for in an emergency vessels would be freely offered for national defense without fees.⁸

Where subsidies are paid in the different countries, reference is made to the use of the subsidized vessels in training men for the navy and in maintaining a naval reserve for use in times of war. For these purposes much emphasis is laid upon the schooling that men may get in the sailing-vessels as compared to the training they get on a steamer; and, in consequence, subsidies are offered by many governments to the owners of merchantmen if they will take a certain number of apprentices and educate them in the ways of the sea. It is distinctly felt by some naval authorities that a steamer is no longer a training place for seamen, but that it is wise, and it is possible, to train an engine-room complement on the fast mail

⁷Agreement of German government with the East African Steamship Co., §§ 3, 12, 15, 16, 21, 25, 27, 29, 31.

⁸*Loc. cit.*, pp. x, xi, §§ 21, 22.

steamer,⁹ but not the able seamen needed in the general work of the navy. This position is opposed by no less an authority than Lord Beresford, on the ground that a man is more likely to get the training he needs for a man-of-war on board a steamer than in a sailing-vessel. He puts it this way :

We have just arrived at the steam age, and we might just as well try to train engine-drivers on the Great Northern Railway on a coach as to train these men in manning masts and yards to drive a ship ; let the men be trained to what they have to do.

It is fully recognized that the training an officer needs is that which he secures by service on a full-rigged ship, but a government might supply training-ships that would meet all the requirements of the steam merchant marine in this direction.¹⁰ Still the demand for subsidies for sailing and steam merchantmen is placed upon a more extended basis, namely, that of furnishing a reserve for the naval requirements of a nation in times of war.

Without sailors of the same nationality, the men-of-war would have to be manned partially by foreigners ; consequently every nation is interested in having a large number of native seamen. By granting subsidies and requiring the companies to employ native sailors a country may secure a large enough body of men to meet its requirements. The inducements offered are (*a*) bonuses to natives serving in the fishing fleets ;¹¹ (*b*) requirements that a certain part of the sailors on vessels receiving subsidies shall be natives ;¹² (*c*) the establishment of a naval reserve requiring the presence of the men for drill a certain number of days each year, and providing for the payment of wages during the time ;¹³ (*d*) making officers in the merchant marine members of a naval reserve and entitled to retire at sixty-five on half or one-third pay ; (*e*) the maintenance of schools for training in the merchant marine ; (*f*) and the establishment of hospitals and sailors' homes under government supervision. The proposals

⁹See the testimony of Lord Brolssey before the Select Committee of the House of Commons, 1902, Q. 1059.

¹⁰The state of Massachusetts and the city of Boston maintain a training-school for boys who desire to enter the merchant marine as officers.

¹¹Frye, Subsidy Bill, Fifty-seventh Congress, First Session S. F. 1348, § 12.

¹²The French Mercantile Marine Act of April 7, 1902, permits vessels engaged in international coasting trade to carry a minimum French crew of captain, two mates, engineer, boatswain, and two registered sailors.

¹³U. S. Commissioner of Navigation, 1903, p. 290.

made, in face of the demand for native crews in war times, are hardly sufficient to overcome the economic forces that draw men from the sea. England would have to find sailors for her fifteen million tons of shipping from a population of less than forty millions, while Germany makes a demand for the manning of but three million tons from a population of fifty-six millions. No other industry requires a labor force on a national basis. It is doubtful if any nation can secure native crews for its ships by any reasonable subsidy system;¹⁴ and it may be added that, if it does, the most efficient sailors could not be secured for all vessels under a restriction of that character. Whether it is wise to burden an industry with certain requirements, when every merchant marine employs a greater or less number of foreigners, is decided in the negative by the author of *La navigation commerciale*, on the ground that an industry must have the opportunity of selecting its laborers as it thinks best. This general rule seems to be pretty well borne out in the experiences of the successful maritime nations.

2. *Commercial subsidies*.—In addition to the subsidies offered for imperial purposes—and these may be cited as quick communication and auxiliary cruisers for the protection of the merchant marine in times of war—payments are made by governments to secure commercial advantages for their merchants. These take the form of subventions to steamship companies (1) plying regularly to a newly opened country, (2) to establish what promises to be a new trade, and (3) to maintain the owners of vessels in severe competitive struggles.¹⁵

Subsidies for commercial purposes are based upon the supposition that assistance is needed to build up trade in parts of the world where, for commercial and industrial reasons, the establishment of trade with the nation appears desirable, but where private capital and enterprise cannot at first venture to engage itself; and also on the supposition that equal competition of lines cannot be carried on against foreign subsidized steamship companies when the nation's merchant marine has no such substantial aid. With such aid it is urged that the shippers will have an opening to a new market, the owners of vessels will keep the insurance and freight money at home

¹⁴Colin, *La navigation commerciale au XIXe siècle*, p. 405.

¹⁵Testimony of Sir William Ward, H. C. Select Committee on Steamship Subsidies, 1901, QQ. 1132, 1133.

and create what amounts to an export, producers will have a larger field, and the nation as a whole greater economic strength.¹⁶

If it is accepted that a subsidy is wise for commercial reasons, it still remains to determine the conditions of its payment. A number of ways may be cited. (1) First among these may be mentioned a subsidy based on the number of days sailed by vessels. This is a form which stimulates sailing and movement from port to port, but it does not create a movement of goods.¹⁷ Even favorable action on the part of the government is secured in the tonnage measurements so as to increase the gross tonnage and swell the returns for vessels. (2) The second is a payment for mileage—a form of payment corresponding rather closely to the first form, but having an advantage over it in placing emphasis on the distance sailed. The same objections can be urged against it as in the first method. The scale of payment usually varies with the size of the vessel. (3) The third form, recently proposed by the Congressional American Merchant Marine Commission, places the emphasis upon tonnage alone without modification as to speed or cargo. The amount is small, \$5 per ton register, and the same for all vessels. The theory underlying this subsidy is the equalization of wages and cost of operation with those prevailing on vessels of competing nations.¹⁸ (4) The fourth form combines tonnage and speed, but makes no provision for cargo carried or time of commission. The earlier subsidy bills introduced in the Congress of the United States contained these provisions. In the Frye bill of 1902 the subsidy provision classified vessels according to their tonnage and speed into seven classes, the payment per mile declining with decreasing tonnage and speed.¹⁹ (5) The fifth form, and the most reasonable of any thus far presented, combines the features of the first three in payments based upon tonnage of vessel, rate of speed, and cargo carried. The last feature is added

¹⁶See Bates, *American Marine*, pp. 11, 12.

¹⁷Recommendations of French Extra Parliamentary Committee, shipping bounty: each ton up to 2,000, 5 centimes per ton per day; 2,000—3,000 tons, 4 centimes; 3,000—4,000 tons, 3 centimes; 4,000 or over, 2 centimes.

¹⁸See Report No. 2755, Fifty-eighth Congress, Third Session, p. xxii.

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| | | | |
|--------------------|----------|-------------|-----------------|
| First class..... | 20 knots | 10,000 tons | \$4.70 per mile |
| Second class..... | 19 " | 10,000 " | 4.30 " " |
| Third class..... | 18 " | 5,000 " | 3.60 " " |
| Fourth class..... | 17 " | 5,000 " | 3.20 " " |
| Fifth class..... | 16 " | 5,000 " | 2.97 " " |
| Sixth class..... | 15 " | 5,000 " | 2.66 " " |
| Seventh class..... | 14 " | 2,000 " | 2.35 " " |

for the purpose of guarding against the mere sailing of vessels from port to port without cargo. In the Hanna-Payne bill the clause relating to this portion of the subsidy contract reads:

That no vessel shall be entitled to the full compensation under this clause unless she has cleared from a port of the United States with cargo to the amount of 50 per cent. of her gross tonnage.²⁰

In the case of passenger steamers a provision is made which deducts the tonnage of the vessel given over to the accommodations and necessities of passengers from the total tonnage of the vessel, thereby materially reducing the amount of cargo carried under the fifty per cent. clause and still permitting the vessel which carries passengers and a small cargo to earn the subsidy.

Where the policy of a nation is based upon the idea of extending aid to ship-owners whose vessels are subjected to rather severe competition with foreign companies, there is the necessity of drawing the line and arbitrarily determining when such competition is excessive and severe. This is a difficult process, requiring a full knowledge not only of what the condition of the trade is, but also of the cost and trouble of navigating vessels.²¹ The competition is further accentuated by the indirect subsidies granted to shippers and builders of vessels in the form of preferential rates, cargo bounties, and free materials for shipbuilding. The object of such payments on the part of a government is to encourage shipments and greater regularity of shipments, so that the native product can get into a foreign market more cheaply than the product of competing merchants from neighboring states. The supposition is extended another step, and concluded in the notion that a continuation of such a policy will sooner or later give the trade to the nation that offers the best facilities.

Realization of declining trade soon brings the nation, so unfortunately afflicted, to review the action of the competing nation, and to follow its example in making payments to ship-owners for more regular service to the ports where the trade contests are going on. Each nation feels that it must have its own "proper trade"—the share that belongs to it. If the contest grows too severe the competing lines, though of different nations, compromise and divide the field. From the point of view of the subsidy advocate, the government has been fully justified in granting payment to the owners

²⁰Fifty-sixth Congress, First Session, H. R. 64, Report No. 890.

²¹Sir Robert Giffen thinks the matter could be decided by government experts. Report of *H. C. Select Committee on Steamship Subsidies*, 1902, Q. 205.

of vessels even under these conditions; for has it not kept a part of a trade whose very existence was threatened? Another form of the competition is found in the building of vessels of greater and greater speed, whose expense for coal and maintenance increases at a so rapidly growing rate that subventions of some kind must be paid to the ship companies to induce them to keep up the contest.²² There must be a limit to the contest; in time the stronger nation financially can force the weaker one to the end of a subsidy policy, and when the subsidies are withdrawn, the companies are where they were before to all practical purposes. The rule which might be put down as governing the question of subsidies is: So long as the private owner can compete, and no national interest is involved, a subsidy should not be paid; but if a national interest is involved, which would be furthered or actually saved from destruction by such an action, then the granting of a subsidy may be favorably considered. The real question is to distinguish between national and private interests.

3. *Indirect subsidies.*—Different governments have from time to time established the policy of extending aid in various forms to shippers, shipbuilders, and the owners of vessels by bounties, low railroad rates, materials free from duty, payment of canal and fuel expenses, and free registry of ships purchased abroad. So potent are these factors in the merchant-marine problem that they are called here in this paper "indirect subsidies." It should, however, be explained that the indirect subsidy, though in some instances paid by the government, as in the case of bounties on cargoes, and the payment of fuel, canal and harbor dues, is more often not a direct payment, but an advantage resulting in increased earnings to the owners and builders of vessels by legislation likely to encourage shipments of goods and cheaper ships, and consequent increased demand for ships.

In this discussion we may group the indirect subsidies under the two heads of (1) payments to encourage the movement of goods, and (2) subventions to stimulate the building and use of ships. It has been repeatedly stated in the discussions about subsidies that vessels were not required to carry goods in order to secure the subsidy. To meet this criticism, and to couple subsidized vessels with the movements of commerce, it has been proposed to place bounties

²²The action of Germany in the building of recent vessels of great speed, and of Great Britain in extending loans to a company to build two fast vessels, is in point.

upon the cargoes carried to foreign ports.²³ The term "bounty," as already intimated in the preceding sentence, is used to designate payments made to encourage some branch of industry, trade, or agriculture. In its essence it is a method of buying freight by the government for the ship-owners, but in result the payment acts as a stimulus to export and to the movement of goods at high rates. Vessels carrying bounty cargoes are protected from the competition of foreign vessels, but the movements of such vessels are limited to the ports to which the bounty-encouraged cargoes go; at its very best, a policy of this kind can be only temporary. In the instance where bounties are paid to the ship when a cargo is carried, a direct subsidy is given; but a bounty paid to the exporter is indirect, so far as the ship-owner is concerned, and reverts to his advantage in the opportunity he has of carrying a cargo at higher rates than he could otherwise.²⁴ The amount of such bounties has been variously estimated from the percentage necessary to pay insurance premiums to large and generous payments for exported products.²⁵

A method still more effective than the export bounty, so far as the encouragement of real fundamental trade is concerned, is the reduced rate system which consists of the through bill of lading and preferential through rates. These terms require explanation. Taking them in their order of mention, the through bill of lading is almost self-explanatory, but refers particularly to the shipment of goods from an interior town to the firm or company purchasing them in a foreign city without the necessity of rebilling. The second term refers to special rates made on through shipments either on rail or vessel, or both. Though neither of the practices is new—for the railways of the United States have agreements with the steamship companies both in regard to through bills of lading and preferential rates²⁶—still the motive of the railways of the United States is a selfish one, and not for the purpose of developing national trade and

²³Amendment to Frye Bill, Senate File 727, Fifty-sixth Congress, First Session, introduced in the Senate by Butler, of South Carolina, January 30, 1900.

²⁴Memorial to the Senate of the United States by David Lubin, in behalf of the State Granges of California, Oregon, Illinois, Washington, Missouri, Virginia, and Pennsylvania. Reported with amendments to Senate File 727, Fifty-sixth Congress, First Session.

²⁵Bates, *American Marine*, p. 430; Amendment to Senate Bill No. 727, January 30, 1900.

²⁶Controversy of Minneapolis millers with railroads in regard to flour- and wheat-export rates.

commerce. In the states where the railroads are owned or operated by the government, through rates of a preferential nature are granted to all shippers to foreign countries.²⁷ The result is a remarkable encouragement of trade; for the German merchants are often able to undersell other nations because of the advantage secured by the preferential rate. In case of private lines, as in the United States, both railway and steamship companies accept a part of the cut in the rate; but in the states where the railways are government-owned the state bears the cut, and if the difference is not made up by increased traffic, the government charges the loss to deficit.²⁸ By this practice the selected steamship lines get freight, and the dealers in the goods are able to place their commodities in foreign markets at an advantage over their competitors. Other things being equal, the consequent lower price is pretty sure to develop a substantial trade, whatever the effects upon taxation through the existence of a railroad deficit.

Omitting the question of rebates to exporters as a phase of indirect subsidy, but little practiced, the attention is directed to a second phase of this division of the subject, which deals with the use and building of vessels.

To use vessels, you must own them, or at least control them. This requires building or buying, or both. In many nations the citizen is prohibited from buying the cheapest vessels, and if he wishes to engage in deep-water commerce, he must order a vessel built in the ship-yards of his own country.²⁹ Whether he will do this or not depends upon the cost of the vessel he proposes to build. If he finds the price a good deal higher than those prevailing in other lands, he seeks investment in some other industry and does not enter the business of a deep-sea carrier. To meet this difficulty, it has been proposed, and in some instances actually adopted, to grant citizens the right of purchase anywhere, and free registration of the vessel afterward under the national flag. Such action places the native ship operators on the same basis as the foreigner, so far as original investment is concerned. Where this policy has been adopted, the repairing of the purchased vessels gives the native ship-yards plenty

²⁷*English Blue Book, Commercial*, No. 2, 1898, p. 53.

²⁸*Report of the House of Commons Select Committee on Steamship Subsidies*, 1902, QQ. 724, 906.

²⁹France, Russia, United States.

of employment, and at the same time an opportunity to improve their plants³⁰—the fundamental object.

In order to place the ship-building industry on a paying basis, and to compensate the owners of yards in some measure for such depression as may fall upon them because of the policy of free registry, it is advocated that the materials used in ship-construction be admitted free of duties. This concession is sometimes supplemented, as in the instance of France, by construction bounties amounting to \$12 per ton of iron and steel vessels constructed.³¹ Legislation has likewise been proposed still to maintain the tariff on materials used, but grant rebates amounting to the tariff paid; and, if native materials were used, pay the builders rebates equal to the tariff on foreign materials.³² The real value of the free-material plan cannot be attained by the rebate plan; for the former compels the home manufacturer to compete with the foreign steel-producer, in price at least. Where a trust exists, the ship-building industry is materially benefited by the option it has of making purchases of material in foreign markets. This is shown in the note below.³³ It is stated that Germany owes her ship-building industry to the repair work done upon vessels purchased by Germans abroad, and by the admission of ship-building materials free of duty. To these, however, the state railroads add a third factor in the granting of low freight rates on all materials used in building vessels.

The English government has recently inaugurated a policy of loans that adds another feature to the methods of increasing shipping tonnage. It is a well-known fact that increased speed in steamships is attained only at a great expense; in consequence, private companies hesitate to enter the excessive competition in which ocean

³⁰The rapid increase in the shipping of Norway is due to the policy of free registry. The German ship-yards began their career with the repair of foreign-purchased vessels. The policy of free registry may in a measure conflict with that of ship-construction, but, on the other hand, it gives a nation a share in the profitable business of transporting freight and passengers on the seas.

³¹Fifty-first Congress, First Session, *House Report No. 1210*, p. 423.

³²Lynch Committee, 1870.

³³Price per ton of steel plates in United States and England:

| | U. S. | England | | U. S. | England |
|--------------------|---------|---------|---------------------|---------|---------|
| October 1900..... | \$24.64 | \$38.88 | January 1902..... | \$35.84 | \$27.37 |
| December 1900..... | 30.24 | 40.09 | December 1902..... | 35.84 | 31.60 |
| February 1901..... | 31.36 | 32.80 | January 1903..... | 35.84 | 30.37 |
| December 1901..... | 35.84 | 38.93 | September 1903..... | 35.84 | 27.37 |

greyhounds are engaged. To meet this difficulty, the English government proposes to loan to the Cunard Company the sum of \$13,000,000, to be used to build two vessels whose minimum speed must be twenty-four and one half knots. The rate of interest is placed at $2\frac{3}{4}$ per cent., to be paid yearly. In return for the operation of these vessels, the government pays the company \$375,000 each year, and requires the company to pay back the loan in twenty instalments. This practically means a free loan. The usual restriction of no sale without permission of the Admiralty and use in time of war are made a part of the contract.³⁴

One other method of dealing with vessels remains for consideration in this section of the discussion—a method that may be cited under the title of payments of canal and harbor fees and fuel costs. There is little to be said of it other than that it is sometimes used to encourage new lines or to equalize competition.

II

It has been said that the restrictions and regulations which a nation puts upon its own and foreign shipping will affect it as materially as a subsidy. The English owners repeatedly complain of the application of the load-line to their ships, and not to those of the foreigners. This is but an instance of the meaning of restrictions. In so far as legislation of this type affects the merchant marine, just so far is it to be included in a discussion of the merchant marine and the difficulties surrounding its development. In placing so much stress upon subsidy legislation, the navigation laws have been largely overlooked. To put it specifically: Is there any use of subsidizing a merchant marine, when England is more than likely to reserve the trade between the mother-country and her colonies to English vessels, on the ground that it is coastwise trade? Taxes upon freight movement, upon income of vessels, loading, entry, and docking of vessels, and discriminating duties on tonnage, all constitute restrictions that may make or mar a merchant marine. It is to the consideration of these difficulties that we proceed.

1. *Coastwise trade*.—From the point of view of the nation desiring to trade in the ports of a foreign land, the reservation of coastwise trading rights to citizens constitutes a restriction upon the movements of their vessels. While, on the other hand, the reservation of

³⁴Cunard Contract, July 31, 1903, *Report of U. S. Commissioner of Navigation*, 1903, pp. 230, 231.

that trade is looked upon by the citizen as protection to national shipping. Thus coasting trade comes to be a technical term used to define the plying of vessels with cargo from port to port along the same coast. On the ground that this is the heritage of the native, most nations reserve it for their citizens. Says the Select Committee of the House of Commons on Steamship Subsidies:³⁵

This class of restrictions appears to be on the increase, so that the field of British trading throughout the world is becoming gradually but surely circumscribed. The United States extend the doctrine so as to declare a voyage from New York round Cape Horn to San Francisco, or from San Francisco to Honolulu, to be a "coasting voyage," and, as such, they restrict it to vessels carrying the United States flag. Similarly, France refuses to allow any but French vessels to trade between French ports and Algeria; and Russia, in reserving its coasting trade to its own flag, included in this restriction the navigation between Russian ports in the Baltic and the Black Sea, and between all Russian ports and Vladivostock in the far east of Siberia.³⁶

The establishment of a coasting-trade restriction calls into existence a good deal of machinery for dealing with vessels engaged in such trade. The law provides, first, that the vessels must be owned by citizens, and in some instances built by native yards, manned by a crew partially native, and officered by citizens. The law also provides that all vessels must be licensed at short intervals; this gives them the right of entry and clearance from port to port along the coast, and, *per contra*, excludes foreign vessels from such movement, except in so far as they carry cargoes from foreign ports to a port other than their port of entry.³⁷ And when this is done, the law requires numerous manifests and statements concerning the cargo in transit from foreign ports. So strict is the law that a vessel engaged in the foreign carrying trade cannot engage temporarily in the coasting trade without a license and the payment of fees, even though it flies the nation's flag. With the thorough establishment of coasting-trade laws in reference to the trade along the seacoast, the tendency is to extend the principle to island possessions or to coast line separated by intervening nations from the coast of the nation. This is seen particularly in the case of Russia, the United States, and France, in the instances cited above.³⁸

³⁵*Report of the Committee*, 1902, p. xxi, §42.

³⁶See also Appendix, No. 3, in same *Report*, session of 1902.

³⁷*Revised Statutes of the United States*, § 4347.

³⁸*Report of the United States Commissioner of Navigation*, 1903, p. 304.

The justification of such policy is found in the building-up of a native merchant marine, and the creation of a body of sailors and officers that will act as a reserve in time of war. On the other hand, in so far as such exclusion tends to increase the cost of the vessels engaged in such trade, and to increase the price of commodities, to that extent does it cut down the whole trade, though the vessel-owners are not compelled to meet the competition of the foreigner. Against this policy it is proposed by the nations not following it to exclude the vessels of nations now maintaining such a policy from their coasting and colonial trade. In their opinion, if nothing else could be gained, at least they would have something to affect the demands of foreigners when it came to the making of treaties. Of this point more will be said in another place.

2. *Discriminating and ad valorem duties.*—No more important method of discriminating against foreign vessels in favor of national shipping has been found than that of laying a tax upon the foreign ship-owner, on the basis either of the tonnage of his vessels or of the tonnage and value of the cargo. In the first instance, a tax of so much per ton is charged against the vessel each time it enters the harbors of a taxing country. A small fee is sufficient to turn the trade from one carrier to another, although it may be a means of increasing the cost of shipping articles in a foreign market where a nation has insufficient shipping to carry its exports. A tax, in the second instance, may be placed on the tonnage of the cargo because imported in foreign vessels, or, if on an *ad valorem* basis, the tax may differ in percentage when carried in a domestic as against a foreign vessel.

This form of discriminating duty may be laid by granting a rebate to the importer when a domestic vessel is used, or by adding an increased percentage of tariff duty to the regular tariff upon goods when imported in foreign vessels.

In order that the builders of domestic vessels may not be too greatly discriminated against, some concessions in the form of reductions in tonnage duties are made to foreigners who have bought the vessels built in the taxing country. Where rebates are granted to merchants, in the instances cited above, they were, at the time such laws were enacted, carriers as well as dealers. Consequently protection to merchants was protection to ship-owners—a condition of affairs not prevailing today, in that the carrier is distinctly different from the merchant group; and, as a result, legislation of the character

indicated would hardly inure to the benefit of ship-owners, except in so far as it gave owners the first opportunity to carry the freight.³⁹ The object of legislation of this type was threefold: first, protection to shipping by the encouragement due to the discrimination; second, to raise a revenue; and, third, to meet the expenses of lighthouses and beacons. The last reason no longer exists in nearly all nations, the one exception being England, which still levies a light duty on all vessels, but in this tax she does not discriminate in favor of her own vessels. In fact, the discriminating duty is greatly modified in its application by the most-favored-nation clause found in commercial treaties. The use of the discriminating tax on tonnage is subject to a double criticism. In the first instance, it opens the way to retaliatory legislation by foreign nations; and, in the second instance, it is unscientific in that it applies to all vessels alike, regardless of age, loading-line, or character of propulsion. As a policy, it has been given up since 1872 by the leading nations.

3. *Regulations and rules.*—The close relationship existing between state and ship from launching day to the final breaking-up of the vessel is first seen in the provisions for measurement and registry.⁴⁰ The measure of a vessel's tonnage creates a standard for light, harbor, and dock dues, while the registry indicates nationality from the official point of view. The measurement of a vessel varies in different lands with the basis of measurement. In France subsidies are paid on gross tonnage; consequently the law reduces net tonnage and magnifies the gross tonnage of vessels. This is an indirect encouragement to vessel-owners,⁴¹ in so far as it reduces the expenses of navigating the ship. The English net tonnage is higher because fewer deductions are made for accommodations, supplies, and space not used for storing freight. The dead-weight carrying power of the English ship is usually greater than that of the French vessel, which in a measure makes up for the small advantage in net tonnage and the consequent lowered fees. The purpose of registry of vessels is to secure information concerning the vessel and its owners, partially for purposes of identification, partially for protection. The English have ingeniously modified their registry law so as to permit the easy transfer of shares in

³⁹*Annals of Congress*, First Congress, 1789-91, Vol. I, April 21, 1789.

⁴⁰Farrar, *The State in Relation to Trade*, p. 120.

⁴¹*Report of Select Committee on Steamship Subsidies*, 1901, Q. 1493.

a vessel, thus stimulating the purchase and sale of shares.⁴² With this arrangement there is also provided a complete system of title and conveyance by which it is possible to transfer the title of a vessel from port to port by the payment of a small fee.⁴³

Over load-line regulations discussion and controversy have waged for decades. But one great nation has officially created a load-line by legislation,⁴⁴ and in the application of it to foreign vessels in English ports much friction has been caused. No ship-owner is theoretically opposed to a load-line; but, when based upon certain structure and form of vessel, it may act as a discriminating agent against vessels built just as well, but not in accordance with the specifications framed by the makers of the load-line regulations.⁴⁵ As a basis of loading, much injustice may be done by not making proper exceptions for form and bouyancy of vessel and load; but as a basis of insurance, in so far as the load-line requires certain types of structure, still greater injustice may be rendered by differences of rates based upon structure requirements. This in itself is at times sufficient to divert cargo from one vessel to another because of its classification under insurance regulations.⁴⁶ The nation that has load-line regulations which favor the type of vessel produced by her ship-builders has in consequence the double advantage in the enforcement of the rule and the placing of insurance.

While tonnage duties and load-line regulations materially affect the business of ocean carriage, the taxation of the vessels engaged in that industry by the governments whose flags they fly acts as a burden or an aid. In many nations it is accepted that a vessel does not by its very nature enjoy the benefits of a municipality in police, fire, cleanliness, paving, and so on, and therefore should be free from a property tax. In one case in particular, however, the taxes placed by state authorities are so heavy as to amount to a very considerable percentage⁴⁷ upon the capital of ocean carrying companies. Add to these the numerous petty fees, duties, and charges levied on the ves-

⁴²Bates, *American Marine*, p. 71.

⁴³Farrar, *loc. cit.*, p. 120.

⁴⁴English Merchants Shipping Act, 1876; amended 1890, 1894.

⁴⁵For the French point of view see Colin, *La navigation commerciale au XIXe siècle*, chap. vi, § 3.

⁴⁶Bates, *American Marine*, Appendix, pp. 439-56.

⁴⁷Wells, *Our Merchant Marine*, p. 172; *Report of the United States Commissioner of Navigation*, 1894, p. lxvii.

sels of the United States, and it is small wonder that the American hesitates to enter a field with so little promise and so many chances of loss, as compared with the greater opportunities for profit under the more liberal administration of law in foreign nations.⁴⁸

Much the same thing might be said concerning compulsory pilotage fees, docking, light and harbor dues. A particular port gets a reputation for being an expensive clearing port, and in consequence of local legislation may divert traffic to other ports. On the other hand, national legislation may place a tax upon every passenger landed, as well as a tax upon each sailor of vessel crews, to maintain hospitals; and a general tax of a stated amount against the vessel for sanitary inspection.⁴⁹

III

The preceding divisions of this paper have had to do with ships and shipping regulations, but so wide and complicated is the subject that it is necessary to deal with a third phase, which is found in artificial and natural influences affecting commerce. In the discussion of these, convenience dictates the division of the subject into commercial influences and government attitude, and in harmony with this suggestion the paper proceeds to the consideration of commercial influences.

1. *Commercial influences.*—It has been stated that foreign commerce rests upon the exchange of commodities between nations. It does not matter so much to a carrying nation whether its people are engaged in selling and buying products from other nations, providing its ships may engage in transporting the goods of nations carrying on such a trade. Trade, then, being first necessary—though ships may expand it—before a merchant marine can be developed, it is worth the knowing to understand how trade may be affected by commercial influences.

Without going into questions of races and their characteristics, it is sufficient to keep in mind that race characteristics, habits, and customs, as well as speech, stand as obstacles in the way of trade

⁴⁸Taxation of vessel property in Maine appears to be three times heavier than in California, double that of Georgia, and many times greater than in England, France, or Germany. (*Report of U. S. Commissioner of Navigation*, 1894, p. xlviii.)

⁴⁹*Revised Statutes of the United States*, §§ 4206, 4207, 4370, 2871, 2875, 2880, 4353, 4347, 4367; Act of August 18, 1894; §§ R. S. (4550-54), 4580.

and commerce between nations. Immigration sometimes breaks these down by establishing trade relations between the people in the new land and those at home in the fatherland, but language and custom must be overcome before a manufacturing nation can hope to sell its products in other lands. Long habits of trade, certain methods of consumption leading to the maintenance of trade relations with a foreign country, may prevent a rising commercial nation from securing what it regards as its share of the trade. In addition to these obstacles are the very present ones of transportation and communication, which, however, facilitate rather than create commerce.

New habits of consumption, new wants, and new notions may be brought into being through the missionary work of the well-trained and thoroughly equipped salesman. As a representative in foreign lands, he must know the language and consuming habits of the people. To be successful, the articles offered for sale must be made and packed to conform to the needs of the people among whom he is working; if these efforts are accompanied by well-adapted advertising, trade results are pretty surely to follow.⁵⁰

Still, the maintenance of trade does not rest upon the efforts of a salesman, advertising, and conformity of article to the wants of the people in a foreign land; other factors, too, enter into the building up of a trade. To mention another, in addition to those referred to, would be to call attention to the means of making payments through banks and credit devices. The author of the report referred to in a recent footnote says:

The bills on London which South American merchants remit in settlement for their purchases entail no loss to the recipient; but that fact does not remove the necessity for American banks which shall transact business direct between North and South American without dependence upon England.⁵¹

There is, however, the influence of nationality, which in the granting of credit on long time acts as a marked influence upon trade. The presence of branch houses, with facilities to take care of trade and grant the necessary accommodation, must, in the very nature of things, act as an agent in the getting and maintaining of trade. An occasional loss in the movement of goods has brought into existence a vast system of marine insurance, the managers of which have the

⁵⁰*Report of National Association of Manufacturers of the United States on Foreign Trade of Argentine, Uruguay, and Brazil, 1897, pp. 37, 38.*

⁵¹*Ibid.*, p. vii.

power of determining rates and conditions of carriage. The discrimination possible against ships of other nations by this machinery has already been spoken of.

It appears that even trade requires a certain amount of machinery, and without this machinery a nation cannot hope to get much more than what might be called a non-divertable exchange of goods. At times manufacturers have, regardless of the national lack of machinery in foreign lands, attempted to stimulate shippers to the point of exporting their products by granting to them bonuses on the sales. This may succeed for the time by sheer force of cheapness, but it is artificial and superficial. The products are a surplus and do not conform to requirements of size, form, weight, or packing, and sooner or later the more careful foreigner makes serious inroads that are pretty sure to be permanent through his more painstaking and scientific methods.

2. *Government attitude.*—Governments are continually enacting from time to time legislation that affects trade and trade relations. Bonuses, tariffs, treaties, protection of rights, navigation acts, taxation, even the moral attitude of the government itself, go a long way in hindering or actually helping the growth of trade. Commenting on this last phase, a witness before the Select Committee of the House of Commons said:

I think the interest taken in shipping in Germany, from the emperor downward, has done more to stimulate them to action and success than subsidies. This help, however, is moral rather than material.⁵²

It is the feeling that the government is with the shipping interest, and not against it; that it is ready to protect vessels against foreign encroachment, willing to use consular officers in advancing trade and commerce, and more than all anxious to avoid legislation likely to prove injurious or embarrassing to the movement of ships.

In order to encourage exports, and incidentally to give vessels cargoes, certain nations have paid bonuses on manufactured product which is exported. This has resulted in high prices to the native consumer and low prices to the foreign purchaser, with the material effect of increasing production at the expense of more needed products.⁵³ Such a policy usually means a higher tariff, first, to

⁵²*Report of Select Committee of House of Commons on Steamship Subsidies*, 1902, Q. 1771.

⁵³*Political Science Quarterly*, Vol. XIV, p. 87; *Journal of the Royal Statistical Society*, Vol. LXV, p. 440.

protect other interest in counterbalance for the export bounty; and, second, to secure more income to pay the bonus. In its final analysis the system of bonuses cannot be said to influence shipping.

The last remark does not apply to the tariff; for upon its adjustment hangs the fate of an extended commerce. Foreigners cannot take the products of a nation unless they have something to buy with, and that something must always be what they have produced. If their products are shut out by tariffs, their purchases will be reduced to the "non-divertable" trade. Successful shipping likewise is dependent upon trade movement; for a vessel must have cargoes going and coming, or it cannot long compete with the ships of the nations which are blessed by such double movement of trade. Nor is it possible for a subsidy to overcome the difficulty and differences produced by systems of taxation, whether in the form of a tariff or a personal-property tax upon shipping, unless there is some fair basis of trade.

The natural result of tariff systems has been to develop what are called reciprocity treaties in order to secure favorable treatment of products in return for the same. The power of making such treaties rests with the national executive officer to impose an import tax or threaten to obtain concessions by doing so. It cannot be said that such treaties have materially modified the movement of products in the past, nor created any distinctive trade that called into existence more ships. Nevertheless, it must be admitted that the nation which has restrictive coastwise trade has an unusual opportunity to negotiate with other nations for trading privileges.⁵⁴ In commenting on this point a recent writer says, speaking of England:

When we consider the enormous power we possess in our shipping for negotiation, it seems strange that in 1854 we should have abolished the old navigation laws, and removed all power of taxing foreign shipping without retaining a clause in favor of reciprocity. In the days of old the reservation of coastal trade to national keels was well recognized as one of the most powerful and promising arguments for use in demanding an open market.⁵⁵

If England insists upon such a policy, the vessels of the United States, those to be created by subsidies, would find difficulty in securing employment in a considerable part of the world, unless the

⁵⁴*Nineteenth Century*, August, 1904, p. 192; *Quarterly Review*, April, 1904, p. 336.

⁵⁵*Nineteenth Century*, August, 1904, p. 192.

United States gave over coastwise restrictions on trade in return for the privilege of carrying products to and from British ports.

These statements introduce new factors into the shipping question, which have been materially added to by systems of countervailing duties, preferential rates, both shipping and railroad, indirect subsidies of free materials, bonuses, free registry, and reciprocity treaties. Legislation along a single line is pretty sure to end in futile results. The real problem is a large and complicated one, involving national history, legislation, condition of industry, the stage of shipbuilding, the attitude of other nations, and, above all, the real, fundamental principles upon which a merchant marine rests. The bills introduced in Congress have, in the main, overlooked the fundamental bases of the question. Too much stress has been laid upon speed or cargo qualifications likely to work beneficially for existing lines. Even the report of the Gallinger Commission errs by placing too much emphasis upon tonnage bounties. What is wanted is a general principle incorporated into legislation, such as England adopted in 1838, that will influence the entire industry rather than some phase of it. It is possible that a wider application of the Inman act of 1892 would bring the result so profoundly hoped for, but it is certain that tinkering and small rewards can never bring into existence a permanent merchant marine.

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