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FUTURE AUTHORIZATION OF FUNDS FOR THE
MARITIME ADMINISTRATION

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HEARINGS
BEFORE THE
SUBCOMMITTEE ON
MERCHANT MARINE AND FISHERIES

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OF THE
COMMITTEE ON COMMERCE
UNITED STATES SENATE

NINETIETH CONGRESS

FIRST SESSION

ON

S. 340

TO AMEND SECTION 209 OF THE MERCHANT MARINE
ACT, 1936, SO AS TO REQUIRE FUTURE AUTHORIZATION
OF FUNDS FOR CERTAIN PROGRAMS OF THE MARITIME
ADMINISTRATION

JULY 27 AND 28, 1967

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FUTURE AUTHORIZATION OF FUNDS FOR THE MARITIME ADMINISTRATION

THURSDAY, JULY 27, 1967

U.S. SENATE,
SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES,
COMMITTEE ON COMMERCE,
Washington, D.C.

The subcommittee met at 10 a.m. in the Federal Building, Baltimore, Md., the Honorable Daniel B. Brewster presiding.

OPENING STATEMENT BY THE CHAIRMAN

Senator BREWSTER. The Subcommittee on Merchant Marine and Fisheries of the Senate Commerce Committee will come to order.

Today we initiate hearings on S. 340 and H.R. 158, bills to require future authorization of funds for programs of the Maritime Administration by the Senate Committee on Commerce and the House Merchant Marine and Fisheries Committee. I have introduced S. 340 and have been joined by Senators Magnuson and Bartlett as cosponsors. The companion measure, H.R. 158, was introduced in the House by Chairman Garmatz of Baltimore City and has passed the House of Representatives.

This, of course, is only one part of a continuing effort within the Congress to revitalize our merchant marine. At the time I introduced this bill I felt that while it may not solve all of our maritime problems, it will go a long way toward assuring that our maritime policy will receive annual close scrutiny by the appropriate committees of the Congress. The Armed Services Committee first authorizes the various ships and planes purchased for our armed services. Entirely in accordance with the procedures of our space program where the space committee authorizes space vehicles and also very similar to what we do in the case of the Coast Guard. The Senate Commerce Committee authorizes new vessels first for the Coast Guard.

I believe this would focus national attention on the need for rebuilding the U.S. merchant marine fleet and it would also give the Appropriations Committees more ammunition and more reason to appropriate necessary Federal funds for the U.S. merchant marine fleet if they knew first the two appropriate congressional committees had looked into this very carefully and had recommended such building.

Enactment of this legislation would necessarily result in the House Committee on Merchant Marine and Fisheries and the Senate Commerce Committee having direct supervision and control over the policies and programs of the Maritime Administration and the funds to

Staff member assigned to this hearing: Stanley H. Barer.

be appropriated for the purposes set forth in the bill—that is, subsidies, national defense reserve fleet, vessel construction and repair, maritime training, vessel operation revolving fund, research and development.

Thus, those committees most familiar with maritime problems and their possible solutions would be in a far better position than presently to implement congressional views as to the Maritime Administration's programs.

While enactment would result in the Maritime Administration being required to present its budget to four committees rather than two, this could, of course, double the present congressional concern with maritime programs. In my opinion, this is bound to enhance the possibility of finding solutions and would as well enhance the status of our merchant fleet as a subject of serious national concern.

As a representative in the Senate of the State of Maryland, I am particularly pleased that these hearings are being held in the Port of Baltimore, one of America's great ports, and also in a community that is very proud of our shipbuilding industry, having two, among others, of the great shipbuilding firms of America, Bethlehem and Maryland Drydock, here on the Port of Baltimore.

I would like to insert at this point a copy of S. 340 with appropriate agency comments.

[S. 340, 90th Cong., first sess.]

A BILL To amend section 209 of the Merchant Marine Act, 1936, so as to require future authorization of funds for certain programs of the Maritime Administration

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 209 of the Merchant Marine Act, 1936 (46 U.S.C. 1119), is amended to read as follows:

"SEC. 209. (a) Except as provided in subsection (b) of this section, there are authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

"(b) Notwithstanding any other provisions of this Act or any other law, beginning with the fiscal year 1968 and for each subsequent fiscal year, there are authorized to be appropriated or made available to or for the use of the Maritime Administration for—

- "(1) construction and repair of vessels;
- "(2) payment of construction differential subsidy;
- "(3) payment of operating differential subsidy;
- "(4) maritime training (including Federal aid to State marine schools);
- "(5) maintenance and operation of vessels of the National Defense Reserve Fleet;

"(6) the Vessel Operations Revolving Fund; and

"(7) research and development activities;

only such sums as the Congress may specifically authorize by law for each fiscal year."

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., February 15, 1967.

B-146473.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate.

DEAR MR. CHAIRMAN: Reference is made to your letter of January 30, 1967, requesting our comments on S. 340, a bill to amend section 209 of the Merchant Marine Act, 1936, so as to require future authorization of funds for certain programs of the Maritime Administration.

The proposed legislation would strengthen the control of your Committee and that of the House Committee on Merchant Marine and Fisheries over Maritime policies by enabling and requiring the Committees to annually express their views

and recommendations concerning the Maritime Administration's budget requests by approving authorizing legislation. While we appreciate the Committees can make a valuable contribution to Maritime policies by annually authorizing budget requests of the Administration, we believe that the proposal should be examined carefully in the light of the delay that necessarily results from a requirement that there be an annual authorization act as well as an annual appropriation act.

A possible alternative for exercising the oversight functions of the legislative committees would be to require annual appearances of Maritime officials before the Committees at which time there could be a detailed discussion of the programs, activities, and budget of the Maritime Administration.

Our views should not be considered as opposing favorable consideration of the bill. The need for the legislation is a matter primarily for determination by the Congress after consideration of its needs and its relationship with the Executive.

Sincerely yours,

ELMER B. STAATS,
Comptroller General of the United States.

DEPARTMENT OF THE NAVY,
OFFICE OF LEGISLATIVE AFFAIRS,
Washington, D.C., March 22, 1967.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

MY DEAR MR. CHAIRMAN: Your request for comment on S. 340, a bill "To amend section 209 of the Merchant Marine Act, 1936, so as to require future authorization of funds for certain programs of the Maritime Administration," has been assigned to this Department by the Secretary of Defense for the preparation of a report thereon expressing the views of the Department of Defense.

The bill would require authorization to be enacted for funds appropriated for construction and repair of vessels, payment of construction differential subsidy, payment of operating differential subsidy, maritime training (including Federal aid to State marine schools), maintenance and operation of vessels of the National Defense Reserve Fleet, the Vessel Operations Revolving Fund and research and development activities.

It is believed that there is a possible defect in the subject legislation which might affect the ability of the Department of the Navy to place Economy Act orders with the Maritime Administration in the area of the maintenance and operation of vessels of the National Defense Reserve Fleet. The language could so be construed as to prevent the placement of Economy Act orders on the Maritime Administration as to any of the purposes listed in the legislation. Similarly the requirement for authorization for the Vessel Operations Revolving Fund, which is the fiscal instrument for the above program, could act as a bar to the utilization by the Department of the Navy of Maritime Administration services. We do not believe that the drafters of the legislation intended that result.

In order to avoid such construction of the bill, it is suggested that the words, "or made available to or" be stricken from line 2 of page 2 of the subject bill. Accordingly, only the appropriations made for the use of the Maritime Administration would be subject to the limitations of the legislation.

Subject to the foregoing, the Department of the Navy, on behalf of the Department of Defense, defers to the views of the Department of Commerce on this legislation.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Bureau of the Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report on S. 340 for the consideration of the Committee.

For the Secretary of the Navy.

Sincerely yours,

R. WRZESINSKI,
*Captain, U.S. Navy,
Director, Legislative Division.*

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., March 23, 1967.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in further reply to your request for the views of this Department concerning S. 340, a bill to amend section 209 of the Merchant Marine Act, 1936, so as to require future authorization of funds for certain programs of the Maritime Administration.

S. 340 would amend section 209 of the Merchant Marine Act, 1936, to provide that beginning with the fiscal year 1968, there are authorized to be appropriated or made available to or for the use of the Maritime Administration for:

1. Construction and repair of vessels;
2. Payment of construction differential subsidy;
3. Payment of operating differential subsidy;
4. Maritime training (including Federal aid to State marine schools);
5. Maintenance and operation of the National Defense Reserve Fleet;
6. The Vessel Operations Revolving Fund; and
7. Research and development activities, only such sums as Congress may specifically authorize by law for each fiscal year.

The purpose of the bill is to require the Department to submit its proposed programs for the Maritime Administration for the activities listed in the bill to your Committee and the House Committee on Merchant Marine and Fisheries and obtain their approval of such programs and enactment of an authorization bill before appropriations could be made to fund these programs. The bill would have an impact upon procedures in the Department in that Department officials would have to appear before four Committees of Congress before appropriations could be obtained rather than before two Committees as at present. We are, of course, always glad to appear before your Committee and before the House Committee on Merchant Marine and Fisheries to explain the programs of the Maritime Administration and to furnish any information the Committees desire.

The requirement for authorization bills has delayed enactment of some appropriation bills. House Report No. 1662, dated June 27, 1966, accompanying House Joint Resolution 1180, making continuing appropriations for the fiscal year 1967, states that the Committee on Appropriations original plan was to bring all the regular annual appropriation bills to the House by June 16, but that "the schedule has suffered considerable disruption largely from delays in reporting or otherwise processing several related *annual authorization bills*." House Report No. 1907, dated August 29, 1966, accompanying House Joint Resolution 1284, making further continuing appropriations for the fiscal year 1967, contains the same statement. In his testimony before the Joint Committee on the Organization of the Congress on August 31, 1965, Charles L. Schultze, Director of the Bureau of the Budget, stated (p. 1779) that virtually one-third of the Budget is now dependent upon renewal of authorizing legislation each year before the Appropriations Committee can, under the Rules, report appropriation bills to the floor and that "This creates a real difficulty for the executive branch—in the late enactment of appropriations, in the indecisiveness and inability to make sound plans for the year being considered, in the requirements for executive branch witnesses to explain their program at least four different times to four different committees each year—and giving agency heads that much less time to think and manage—in the immersion of the legislative committees as well as the Appropriations Committees in the details of administration to the detriment of taking the longer range, broader view of missions and objectives, and in prolonged congressional sessions which, in turn, hurry the executive branch beyond the economical point in reaching decisions on legislative proposals and the budget in the short time between sessions."

We recognize that the authorization bills for the Coast Guard which come before your Committee have been expeditiously reported by your Committee and expeditiously enacted by the Congress and that they have not delayed the enactment of the Treasury Department appropriation bills.

If after consideration of the foregoing, the Committee concludes that our voluntary appearance before the Committee, to explain our programs, will not adequately serve the Committee's purposes, the Department would have no objection to favorable consideration of the bill.

If the bill is going to be enacted, we recommend that it be amended by striking out of line 2, page 2, the words "or made available to or". The reason for this recommendation is that although we are sure the language is not intended to prevent reimbursement of the Vessel Operations Revolving Fund by MSTTS for the cost of breaking out and operating general agency ships, our proposed amendment would make clear that this is not prohibited.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of our report to the Congress from the standpoint of the Administration's program.

Sincerely,

ROBERT E. GILES,
General Counsel.

Senator BREWSTER. This morning we will hear from three witnesses on S. 340, and we may expand the testimony, actually, on this bill to the entire area of merchant marine subsidy, construction, and numbers, as the Congress is sincerely interested in the future of the U.S. merchant marine fleet.

Our first witness will be Mr. Ralph E. Casey, president of the American Merchant Marine Institute.

STATEMENT OF RALPH E. CASEY, PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE

Mr. CASEY. Before I read a prepared statement, I should like to subscribe most heartily to all you have said in connection with this bill. You have made out an excellent case yourself before I even begin my statement but my statement will supplement and complement the points you have made in your opening statement.

My name is Ralph E. Casey, president of the American Merchant Marine Institute. Our organization comprises some 37 companies which own and operate a major part of the U.S.-flag oceangoing passenger and cargo vessels, tankers, and other bulk carriers engaged in the domestic and foreign trades of the United States.

The views I express here are concurred in by the Pacific American Steamship Association which represents practically all the major dry cargo and passenger ship companies operating off the west coast of the United States.

At the outset, I would like to state emphatically that we strongly favor the enactment of legislation to require prior authorization of the Maritime Administration appropriations by the Senate Commerce Committee and the House Merchant Marine and Fisheries Committee. This proposal transcends in importance much of the piecemeal legislation which has been so typical in the maritime area. It is important to the industry, it is important to the Government, and, most of all, it is important to the people of the United States.

I need not detail here the present woeful state of the American merchant marine or, in contrast, Russia's massive program to strengthen her own merchant marine. Suffice it to say there seems general agreement today—both in industry and Government—that maritime programs which call for the construction of 13 (or even 15) American ships each year—as has been the case for the past several years—cannot be permitted to continue.

Mr. Chairman, in 1956 American-flag vessels carried 20.4 percent of U.S. waterborne trade. Also, we dropped in total tonnage lifted from 45 million tons in 1956 to 24 million tons in 1966. In 1966, out of a total

volume of 85.1 million long tons, 7.3 percent was carried in American bottoms. The Institute has just learned that in the first quarter of 1967 the volume of trade increased to 86.7 million long tons but the percentage carried in U.S.-flag vessels decreased to 5.5 percent. What more need be said, Mr. Chairman, when the greatest Nation in the world, whose growth and welfare depend so much on the sea, is forced to admit to any such shameful statistics?

I am inclined personally to the view that the enactment of this legislation is probably more essential to the future of the American merchant marine than the final location of the maritime agency. No matter whether the maritime agency remains in the Department of Commerce or ends up in the Department of Transportation or as an independent agency, the present critical state of the American merchant marine demands drastic action by all agencies of Government, both executive and legislative. This legislation would be a tremendous step forward.

I am impressed by the great similarity between this legislative proposal and that which was enacted to require prior authorization for certain appropriations for the Coast Guard.

I draw the committee's attention to a statement made during the hearings on that bill by former Assistant Secretary of the Treasury James Reed, who referred to the difficulties such a procedure would create for the Coast Guard since it "as an applicant before both your committee and the Appropriations Committee will be faced with two tasks instead of one as it asks for the things which it believes it requires. Dual consideration, if it were to deal with the same things before two committees in each House, and later twice on the floor of Congress, could obviously be a factor resulting in delays and possibly other difficulties."

Notwithstanding this rather indirect opposition, the bill was reported out by this committee as well as by the House committee, and in the report accompanying the bill justification for it is stated as follows, and I quote:

The increasing scope of Coast Guard functioning and responsibilities in many fields and areas, and the obsolete or outmoded condition of much of its facilities and equipment, would seem to call for a more lively interest in the Congress in the planning and programing of Coast Guard operations. By requiring the responsible legislative committees of both Senate and House to review and discuss proposals relevant to such future activities the bill, if enacted, would serve to require that the Congress have a fuller appreciation of the needs and objectives of the Coast Guard.

As to the argument advanced last year that the authorization procedure would take up too much time, both of the administrative agency as well as delay the legislative process, I call attention to the fact that similar legislation applicable to Coast Guard appropriations has had no such effect. Each year the authorization bill has been enacted well in advance of the bill containing appropriation funds for the Coast Guard.

In its consideration of laws contemplating the expenditure of millions of dollars of public funds, the Congress should, as a matter of sound legislative procedure, adopt measures designed to insure the fullest and most careful consideration of how the money is to be spent.

Furthermore, it seems to me inherent in the function of a legislative committee—and when I use the word “legislative,” here, I refer to the substantive committees as distinguished from the appropriations committees—that a full review be accorded to the plans and programs of the agency or agencies over which it is charged with responsibility.

The work of these legislative committees should in no way interfere with the work of the appropriations committees. They should complement one another to insure that the end product is the best that can be achieved in the public interest. In that same vein, we should be mindful of the fact that this legislation is not solely a device which may help build up the merchant marine but is also a device which will strengthen the checks and balances between the executive and legislative branches of the Government.

Some years ago, the Secretary of Commerce turned down a request for construction subsidy for the building by the Bethlehem Co. of two large ore carriers in the United States. Admittedly, the Merchant Marine Act of 1936 authorized construction subsidies for such ships. And, I dare say, if the maritime building program had been submitted to the Congress for hearings before the Senate Commerce Committee and the House Merchant Marine and Fisheries Committee that year, these two ships would have been built in the United States rather than abroad, as turned out to be the case.

I would like to draw your attention to three instances which came to light during hearings this session of Congress before this subcommittee and the House Merchant Marine and Fisheries Committee. First, there was the testimony of an official of the Maritime Administration to the effect that they had originally requested funds in their budget for the construction of 30 new merchant ships in each of the fiscal years 1967 and 1968, but that in each of those years it was cut to 13 ships by the Bureau of the Budget. Second, to temporarily inactivate the *Savannah* apparently was not made by the Maritime Administration but instead was made by the Bureau of the Budget on the recommendation of the Maritime Administration's parent agency, the Commerce Department. Third, we had the bizzare history of the Maritime Administration's budget request for research and development which was originally for \$14.7 million but was cut down first to \$10.8 million then to \$7.6 million by the Commerce Department and the omnipresent Bureau of the Budget. These are the type of situations this legislation is designed to correct.

Authorization by legislative committees, as you well know, is neither unique nor unusual. In fact, in many of the more complex areas of national policy, the legislative authorization route has been followed and has worked successfully. Thus, for example, it has been the practice for a number of years for the Congress to authorize annual appropriation for military construction of bases and facilities.

In 1959, this procedure was extended by section 412(b) of Public Law 86-146 to the “procurement of aircraft, missiles, and naval vessels.” In 1963, section 610 of Public Law 88-174 further extended this annual authorization authority over “all research, development, test, and evaluation, and not only that associated with aircraft, missiles and naval vessels.” A substantial portion of the Department of Defense budget, therefore, is subject to this annual authorization procedure. The effect of such a procedure is to subject the DOD budget

request to the scrutiny, review, and approval of the Armed Services Committee and the Appropriations Committee of each House of Congress, with the Armed Services Committee, as the legislative committee, "first turn at bat."

It is true, of course, that both the Senate and House Legislative Committees have held hearings on many of the problems which have arisen in implementing the policies stated in the Merchant Marine Acts. However, such inquiries have no legal binding effect upon the executive branch. Instead, the Bureau of the Budget, governed by restrictive economic concepts and, with little, if any, sympathy for the national maritime policy laid down by the Congress, can and often does frustrate constructive maritime programs.

Under these circumstances, therefore, it would seem necessary that the appropriate legislative committees should review pertinent maritime programs in open hearings when all the facts may be made a matter of public record. The Bureau of the Budget may still be able to thwart the will of the Congress but, believe me, it will be tougher. Mr. Chairman, I might add that not only did I testify to this same effect last year on the House side, but the views I express now as a representative of the maritime industry, I held very strongly when I served as counsel for the House Merchant Marine and Fisheries Committee 12 years ago. In fact, I took the same position during my service in the General Accounting Office from 1939 to 1955.

For all these reasons, and because there seems to be so little time for the salvation of the American merchant marine we feel that this legislation should be placed on the "must" list of maritime proposals.

Thank you, Mr. Chairman.

Senator BREWSTER. First of all, Mr. Casey, let me thank you for your excellent and, as usual, enlightening and informative statement. There is substantial difference as to how we should rebuild the U.S. merchant fleet but would you agree that our present rate of shipbuilding or the rate of additions to our fleet should be very substantially increased?

Mr. CASEY. No question about it.

I think, perhaps, that opinion is shared now by even those that helped to frustrate our programs in past years. I think it is generally recognized throughout the administration, for example, that this must be done.

Senator BREWSTER. Do you see any reason why the U.S. shipbuilding industry should not be given the first chance to build or rebuild the U.S. merchant fleet?

Mr. CASEY. I hesitate only a moment over your words "first chance." The people I represent would much prefer to build their ships in the United States. I fully subscribe to the fact that any substantial new shipbuilding program which everyone agrees we must have should be located and should have the work done primarily in the United States. Yes; to that extent, I agree.

Senator BREWSTER. There is an argument going on in the Congress, as you well know, as to whether or not the Maritime Administration should be an independent agency, should be located within the Department of Transportation, or should remain where it now is in the Department of Commerce.

It is my judgment that S. 340, if enacted, would be applicable in any one of the three instances.

Would you agree?

Mr. CASEY. Yes, sir; I do.

I fully believe that these bills would give a renewed life and vigor, not only to the merchant marine, but to the legislative committees of the House and Senate. I believe it would give the House Merchant Marine and Fisheries Committee a true standing in its jurisdiction over maritime activities and a similar standing would be allotted the Merchant Marine Subcommittee of the Senate Commerce Committee. I believe this is all important. I believe the committees are entitled to have their review of programs have some binding effect. As you well know, at the present time, although you may review programs and may write reports, those reports are really only advisory so far as the executive branch is concerned. But once you take over the authority to authorize the appropriations with full and open hearings, and all representatives of Government, industry, and labor are able to testify and lay the facts before your committees, an opportunity not afforded at the present time before the Appropriations Committees, where the time that is extended to maritime is very limited in nature, where primarily the hearings are in executive session, here the industry is afforded little or no opportunity to appear, it seems to me this is bound to have a salutary effect.

Now, I know and you know that the legislative committees can authorize appropriations that may never be made; or may authorize appropriations that may be made and the Bureau of the Budget may hold back the funds. But I believe that, as I said in my statement, it will be tougher for them to do this. They will be flying in the face of an open record which they are not doing today.

Senator BREWSTER. It also occurs to me that if we require prior legislative authorization, that we then have a very substantial weapon in the hands of the Congress to the extent that there will be no program unless there is an authorization and that an agreement can be reached with the administration ahead of time that they will carry out the mandate of the Congress when an authorization is in fact enacted into law.

Mr. CASEY. Well, of course, that will be a matter between the pertinent committees of the Congress and the administration over which we would have little control or say.

Senator BREWSTER. In testimony given earlier this year before this subcommittee, I believe you proposed that we revitalize our shipyards through a program of low-cost Government loans. Would you care to elaborate on that proposition here this morning?

Mr. CASEY. Well, as I said earlier this year, when the shipyards of Western Europe had been bombed out, we extended Marshall aid funds and rebuilt their yards with loans and grants from the United States and these brandnew facilities over there obviously are in a position to be more efficient than the facilities we had here in this country, which basically have undergone just minor repairs since World War II.

Now I think the time has come when—I don't like to philosophize on this—but we ought to take care of our own country first and take care of Western Europe, not only in shipyards but other facilities, second.

Certainly I believe that in view of the present situation requiring our shipyards to be as competitive as possible, granting the fact that they have to pay their workers wages and fringe benefits commensurate with the American standard of living, but at least they should be enabled to work with more automated facilities that will put them in a position to compete as reasonably as possible with foreign shipyards.

I believe the Government has a responsibility in this area which is really commensurate with the whole theory of the Merchant Marine Act of 1936 and the construction subsidy provisions, to enable this country to have a strong shipbuilding capability.

Senator BREWSTER. Secretary Boyd has advanced the argument that there is a danger that we overexpand American shipbuilding industry and then, in a few years, shipbuilding would taper off and we would have a very substantial unemployment problem in our shipbuilding industry.

Do you see any tapering off in the need for ships in the U.S. merchant marine fleet?

Mr. CASEY. Of course, I see no tapering off at the present time. In fact, I see a vast expansion program ahead, even in terms of American shipyards and American jobs of the shipyard workers.

Secretary Boyd was talking, I believe, in terms of 5 to 10 years hence. Of course, that would all depend upon the number of ships built in the next 5 to 10 years.

I expressed the thought very briefly just this week before the House committee that we cannot lose sight of one fact, and that is that you have to have American ship operators interested in building ships and interested to the extent they will put their money into new ships. They have to put a tremendous amount of capital into new ships, whether built here or abroad, and the bigger the ship, the more money it takes.

I am hopeful that there will be sufficient interest to make the capital investments to build the number of ships we are talking about, that Secretary Boyd is talking about. He is now talking in terms of 150 ships in the next 5 years built here in the United States. He is talking in terms of \$222 to \$252 million a year in construction subsidy funds for those ships.

Now this will take another \$222 to \$252 million of ship operators' funds to match those funds, roughly speaking. Now the thing that bothers me in this entire program at the present time is that I think quite realistically we can say what is holding up the administration in submitting a program is the foreign building issue.

Originally, the American Merchant Marine Institute took the position very flatly that we should be permitted to buy our ships at world market prices, either here or abroad.

Of course, if we bought them here at world market prices, it would have to be with the aid of construction subsidy. If we bought them abroad, it is the best ship for the cheapest price, with time a factor, also.

We then retreated from our position and said, "No; we will change that position to say that we will defer each year being able to build abroad until after the construction subsidy appropriations here in the United States have been exhausted." We felt that the shipyard

construction subsidy should be granted directly to the shipyards, and if they were put on a competitive parity basis, they should build ships not only for America but for foreign account. After all, American ship operators have to compete with foreign ship operators in carrying foreign cargo. Now, as to Alan Boyd's program, there has been a substantial revision of this entire program within the past 6 months and I do not think the modification of the program has been highlighted enough.

Alan Boyd himself retreated to the fact that all construction-subsidy appropriations had to be exhausted first. Then he said for those ships that will be built abroad he would require a hearing procedure to make sure that those particular ships, that kind of ship is needed, that they cannot wait another year, that it would not hurt the operators who built their ships here in the United States at full American shipyard prices. Then he retreated one step further. He said he would agree that this program for foreign building under these limited circumstances would only obtain for a 5-year period and then he would have to come back to the Congress to get renewed authority to permit ships being built abroad. Then he retreated one step further. He said now he was willing to limit the building abroad to a percentage of the number of ships built here in the United States. His recent testimony this week was to the effect that he was thinking in terms of two and a half ships in the United States to one ship abroad which means we are talking about 12 ships a year abroad, talking in terms of 30 ships here in the United States.

So this is the present status of the administration proposal. I talk about Alan Boyd and the administration in one breath even though formally and officially we haven't got a program from the President of the United States with his signature on it. So we are talking about holding up the program for a paltry 12 ships a year for 5 years, and even those under safeguard conditions, and I fully believe that we have gotten to the point where we are knocking each other out over a matter of principle.

In fact, I have expressed the view that I have always had some doubt that these ships will be built abroad because, after all, each year you would have to exhaust the 30 ships here in the United States before you ever get to building abroad. Somebody better start getting realistic about this program.

Senator BREWSTER. Mr. Casey, do I gather that the American Merchant Marine Institute would prefer to see construction subsidies directed to the yard rather than to the operator?

Mr. CASEY. Yes, sir.

We feel the construction subsidy is an aid to the shipyards and as such should be granted to the shipyards the same as the operating subsidy is granted to the operators and not involve the operator in a three-way arrangement as at present.

By and large that principle, which would require an amendment to the act, has been accepted by most maritime interests. I think the shipbuilders are still holding out for the three-way arrangement.

Senator BREWSTER. Mr. Casey, if we first use up the construction-subsidy money available to U.S. shipbuilding and then we permit foreign building, wouldn't we then exhaust the operators' capacity in future years to invest further funds in U.S. shipbuilding?

Mr. CASEY. I don't believe so, Senator. One hundred and fifty ships over the next 5 years will not rebuild the American merchant marine; nor, for that matter, will 210 ships, considering the 12 ships a year built abroad.

Bear in mind that we have 665 ships in the American-flag fleet over 20 years of age. When I say over 20 years, some are 22 to 24 years, some older. We have approximately 300—250 ships under 20 years of age. Some of those ships go back to 1955 and 1954. When we get to the end of the 5- and 10-year cycle those ships will have to be replaced. You cannot talk in terms of rebuilding the American fleet as a one-shot proposition. This has to be a continuing proposition. This is the problem we face today, the fact that we let this go so now we have a block obsolescence proposition calling for a crash program. Hopefully we would not make this mistake in the future and there will be sufficient work on a gradual, spaced-out basis for American shipyards at all times.

Senator BREWSTER. Do you think it makes sense to take ships of 22 and 23 years of age out of the reserve fleet and spend very substantial amounts of money in rehabilitating them?

Mr. CASEY. I have been asked this question several times and I give you the same answer; but I will add something to it. I am really not in a position to say—to give you the frank answer. The military are the ones that have asked that these ships be modernized and put back in the reserve fleet.

If I had my "druthers," I would like to have that money spent in new-ship construction, but this is not the proposal Secretary Boyd makes. He says if this money is not spent in modernizing these hundred Victory troop-type ships, the money is dropped out of the program and will not be spent for new construction.

Under those circumstances—and if the military does ask for this work to be done and provided the military knows what they are talking about in terms of getting their money's worth as reserve capability for these ships after they have been completed, and certainly no layman is in a position to decide whether or not this is so or not unless you see the ships and have shipbuilding experts determine what they will do with them and what type of ship it will be afterward and what quality it will be afterward, we are not in a position to object.

This has been subject to some criticism my people apparently not in a position to know but it sounds good to say you are not going to modernize 22- or 23-year-old ships.

Very frankly, I am somewhat amazed that the shipbuilders have taken this position and I would venture the opinion that if there were no foreign building in this program of Secretary Boyd's you would not hear a peep out of the shipbuilders so far as this work is concerned for modernizing these ships.

This is not their concern. If they are to get the work, what businessman would say "No," when you throw him some work. I think they use this thing as a popular argument to try to detract from the program as a whole merely because of the foreign shipbuilding being in it.

Senator BREWSTER. Would you agree that a rebuilt ship of 22 or 23 years of age cannot be economically competitive with a new ship in terms of operating efficiency and speed?

Mr. CASEY. Well, again, I would have to have a lot more factors than that.

I would say this: If you can rebuild this ship, which apparently has had very little use, for \$2 or \$3 million and the same ship would require \$13 or \$14 million to build today, in terms of your capital investment I would be awfully surprised if you did not come pretty close for a number of years to operating that competitively with the new ship. Bear in mind these ships would be in the reserve fleet for the use of the military and Government-owned ships. Apparently it is a question of either doing that with them or letting them rot. I think this aspect of the program should not be criticized without an awful lot more examination into it.

Senator BREWSTER. Secretary Boyd argued in part that foreign building was necessary because if we built all the ships we need in U.S. yards, it would certainly cause inflation and drive the prices of U.S. ships even higher.

On the other hand, Secretary McNamara came before the Congress and asked for a billion dollar program for fast deployment logistic ships built in new U.S. yards. How are these two positions of the same administration at all consistent?

Mr. CASEY. Well, of course I believe that Secretary McNamara had really more in mind—I know he did—than just the building of these fast deployment logistic ships for military purposes. He had in mind—I believe—although I don't like to say what Secretary McNamara had in mind—that the present cost of building naval vessels in our existing yards is too high and part of the program to build these FDL ships was to build new automated shipyards which could not only build these FDL ships, but would be around to build naval vessels afterwards and would provide a pattern of cost as against the existing shipyards.

I believe this was a very important facet of his program. Now insofar as Secretary Boyd is concerned, there is no question in my mind—and no one can tell me otherwise—if you accelerate our shipbuilding program in the United States by 30 ships a year that we are not going to pay higher prices for them.

There is just a matter of the law of economics. We will have some delays in deliveries and the present delivery schedules are behind already, I am informed. But certainly I would think that by this time someone would have an authoritative report before them showing the number of ways, the number of ships in those ways, what the present prices are for various types of ships, present delivery schedules and how that picture would be affected, adversely or otherwise, by a new crash shipbuilding program here in the United States.

Senator BREWSTER. Mr. Casey, isn't it entirely possible that if U.S. shipyards have a guaranteed program with more ships being built per yard and with steady work and a constant overhead, that the per unit construction cost can go down rather than up as you suggest?

Mr. CASEY. Well, I would admit the possibility.

Senator BREWSTER. And isn't there also the possibility that if the United States goes into the foreign market and places U.S. orders abroad that we will drive up the cost of ships overseas?

Mr. CASEY. That is true also. What is true here is true all over the world for businessmen everywhere.

Once they get more work and have to put people on overtime and if they have to spend money to expand their facilities, naturally they are going to—when business is good they make money. It is as simple as that, both here and abroad.

At the same time, I believe the time has come when it would have a salutary effect on the American merchant marine to have some comparison, which we don't have today, of what it costs to build a ship in the United States as against building abroad. What is the time schedule building here and abroad, and those factors which I think would be very helpful.

Senator BREWSTER. Mr. Casey, as usual you have been very helpful to this committee and I thank you very much for appearing here this morning.

Senator BREWSTER. We would now like to hear from Jack Gerson, regional director, Industrial Union of Marine & Shipbuilding Workers of America.

I believe Mr. Gerson is accompanied by Mr. Pettit. Gentlemen, we thank you for appearing before this subcommittee this morning. Do you have a prepared statement?

Mr. GERSON. No, I don't.

Senator BREWSTER. Please proceed on your own then, Mr. Gerson.

STATEMENT OF JACK GERSON, REGIONAL DIRECTOR, INDUSTRIAL UNION OF MARINE & SHIPBUILDING WORKERS OF AMERICA; ACCOMPANIED BY ANDREW PETTIT

Mr. GERSON. I might say, Senator and gentlemen, that the reason that I at least don't have a prepared statement is that I know Senator Brewster very well and I know from reading that he made out a very good case himself for his particular bill that you have introduced and I know of your ability in the past and present ability and I am sure will always be in the future of your great wanting to fight for what you think is right.

I know of your love for the merchant marine and I know of your love for the people in Baltimore and in Maryland as well as the people throughout the country. I am sure that everything that would be necessary to be put into documentation—into a documented form, you would have done.

I merely wanted to come here and add some comments of my own and I am sure some comments will be forthcoming from Andrew Pettit, national vice president and Washington representative, so that at least you will have a fairly good idea of what our views are.

In the the main, I would say they are in line with many, many, many of your views, if not all. I would like to say first, Senator, that I am speaking here on behalf of the membership of our union, the Industrial Union of Marine & Shipbuilding Workers of America.

I feel also I am speaking on behalf of the workers in many, many, many of the allied industries, industries allied to the shipyards. Actually, as far as the Baltimore and Maryland area goes, I feel I am speaking on behalf of all the citizens here in the city and State, because of the great part that the maritime industries play in their everyday lives.

As you well know, coming from this State, Senator, the old saying that as the maritime industry goes, so goes the economy of Baltimore and Maryland. And I think also a good portion of the other parts of the United States.

But to get down to the bill itself, at present, merchant marine funds are only reviewed by the Appropriations Committee. Now, this bill, S. 340, would allow the Commerce Committee to examine the need for funds and authorize such funds on an annual basis.

This sum would then go to the Appropriations Committee for their actions. Now the Commerce Committee is charged with the oversight, with the general oversight, I might say, of the merchant marine funds so that the change this bill creates is not of that great magnitude that it would change actually what in the main goes on now, with the exception of one thing, and that is that the Commerce Committee doesn't actually ask for the money but they are familiar, very knowledgeable, of what goes on in the maritime field and they are fully aware of all the circumstances.

This bill would, however, give them the additional authority to look into the actual needs of the merchant marine and then decide on how much money is needed and then give their recommendations to the Appropriations Committee. I feel that this is a very, very important factor, although as I say, I don't think it—it gives greater imagination to the Commerce Committee because they do these things, everything, anyway, with the exception of the request for money.

But if they had this right to authorize the need for such funds, to send the authorization to the Appropriations Committee, the important thing is that a congressional committee, with its weight, its prestige, with its knowledge, would send its recommendation to the Appropriations Committee and I think that the Appropriations Committee would give it much greater consideration and I say this not because the Appropriations Committee is not doing the right thing. I don't want to cast any wrong ideas about the Appropriations Committee but their job is made up of so many complex situations that they can't—in my opinion—look into the needs of the merchant marine in as detailed a fashion as the Commerce Committee could and would.

This is what is important to me, as far as this bill goes. It would add the mighty weight of a congressional committee in asking for funds. I think the funds would be much easier forthcoming.

I feel too that the reason to give these requests for funds and examining very closely the reason for these funds and what they will be used for, is also of great importance because of the fact our military leaders throughout the many, many, many years, have always stated that an adequate merchant marine is the fourth arm of defense for our country.

If that is so—and I heartily agree with that idea, it has been proven in every problem we got into with other countries that areas throughout the world—if that is so, then we have to look upon the merchant marine as the fourth arm of defense for our country.

We have to look upon them in the same exact fashion we look upon the Army and the Navy, the Coast Guard, and the Air Force.

We have to look upon them—we have to look upon the merchant marine and see to it that we have an adequate merchant marine just like we need an adequate Navy and Army.

Although finances are always of great concern, we have to look upon the financial situation as it concerns the merchant marine just like we look upon the Army and Navy and other military arms of our country. We have to be concerned with money but our first and primary concern has to be with the security of our country.

I feel that this being so is why S. 340 is in particular more important at this time, because we have to do everything we possibly can to see to it that our merchant marine is maintained, staffed, that the facilities to construct and repair a merchant fleet are maintained and the personnel within those shipyards, within the construction and repair yards, the seamen, are all available.

The only way they can be available is if we have the type of merchant marine that will provide for the needs of our country and if we do that, the type of facilities that we now have won't be left to rust and the skills left to go to the four winds.

This isn't new, really, the fact that we are asking that the Appropriations Committee have recommendations and authorizations sent to them by a specific congressional committee. After all, the Military Procurement Agency has that situation. I think the Atomic Energy Commission operates in the same fashion.

There is not anything I feel should be left undone in seeing to it that the merchant marine has the same kind of weight, the same type of congressional committee action as these others have. Primarily I say because I feel that we have to look upon the merchant marine as one of the arms of defense for our country.

Actually this authorization and recommendation that would be coming from the Commerce Committee would be highlighting the great need they have found for the operations of the maritime program and the funds necessary. If they would express that officially with the legal position of a congressional committee to the Appropriations Committee as I said before, I think a lot more direct action would be taken.

Senator BREWSTER. Thank you, Mr. Gerson.

On this subject, as I am sure you well know, 98 percent of all military cargo going to Southeast Asia now goes by ship. This requires 70 percent of the total capacity of the U.S. fleet to take this military cargo out there. If we were faced with another military situation, of a much lesser magnitude than Vietnam, the U.S. merchant marine would be entirely incapable of handling it.

You have with you Mr. Andrew Pettit, national vice president of the Marine & Shipbuilding Workers of America and also their Washington representative. Do you have any comments to make?

Mr. PETTIT. Yes. I would like to join with Jack in the statement he made in regard to your bill for authorization for the items and programs for the Maritime Administration. I agree with Jack that such a bill would carry a good deal of weight with the strength of the Congress behind the authorization.

I would like to say we don't have a prepared statement here today. We are in the process of moving from our Camden headquarters to Washington and it might be of interest to you to know that we have selected the University of Maryland to turn our records over to and that our research department is in the process of doing that right now and that is why we don't have a prepared statement.

I did use a prepared statement in testifying on the House side on Congressman Garmatz' bill. I want to join with Jack in saying our union does, from the president, John Grovin, have great respect for you for the great service you have done not only for the people of the State of Maryland but for the country as a whole on all issues and especially in the maritime industry area.

We have today, of course, a situation which you have outlined very well and very concretely in your opening statement in regard to our merchant marine. For a number of years, the merchant marine, U.S. merchant marine, has deteriorated very badly.

There is no question about this. We have been battling and trying to work out a formula to straighten out the situation. This is a situation, Senator, that is very complex. I would say that Mr. Alan Boyd, the Secretary of the Department of Transportation, put it very well the other day in a very short sentence in which he said the basic problem is complex and paradoxical. I would say the whole thing is a paradox. First off, we have the situation of the Maritime Administration and the Department of Commerce of being quite ineffectual because of the administration of the Maritime Administration in that Department.

They have sought a certain number of ships each year or funds for those ships and have been cut down considerably in the numbers. Numbers, of course, today in ships doesn't mean a thing. Tonnage is more important to speak of than numbers.

But it is very interesting in this regard that there were 13 ships in 1966 and 13 ships for fiscal 1967. There are 13 ships for fiscal 1968. And of those 26 ships, only one ship has been awarded. The American Mail Line that went to Newport News on an optional bid that took place in 1966 was awarded.

There are 11 ships that they call the lash ships that are somewhere in the future to be awarded on bids. There are three Seabees that are to be awarded somewhere to some shipyard in the future.

They keep putting it off, delaying it, postponing it, and so forth. Now, we all hear the situation we need the ships. We need the ships. If they need the ships who will build the other ships in this program of 26 ships? The one we are griping about.

This interests me greatly that you have all of these great volumes of protest that our program is not appropriate for the situation, the needs that we have, and so forth. And as an actual fact, we are not even getting the 26 ships built. We don't even know who the owners are going to be that want those ships built, 26 ships and one has been awarded, 11 and three in the offering somewhere.

Yet we are talking in terms of a 5-year program that you and I know from our experience in the Congress is almost an impossibility.

Somebody please point out to me how many 5-year programs we ever got through the Congress of the United States. Mr. Boyd says he is not a politician. I agree with him. He is not a politician if he doesn't know anything about 5-year programs.

You can't get an appropriation beyond 1 year, never mind going for a program of 5 years. On back in the past there have been some situations like before World War II but today you try and get appropriations or authorizations or anything else beyond 1 year. This is a situation which Mr. Boyd says, and I agree with him, is a paradox. We must build in foreign shipyards.

Then he wants to know why everybody is against building in foreign shipyards. Give me a reason. I mean when you tell him it is the exporting of jobs, exporting—importing of foreign materials and steel and so forth and so on and the disruption of the balance of payments that we hear so much about, he just disregards this entirely, you see and says—he doesn't say—and makes no case for his building abroad except he says that it will disrupt the shipyards or something of this kind.

I say, Senator Brewster, that we would like to have the opportunity of having a program and see what we can do with it and I assure you we will not only get shipyard capacity but we will get the men to do the work. There is no question in my mind that if we can get the program we will meet it as we have met all programs at all times.

The question comes up about delivery dates. You can examine the record and you will find very few cases of any delays of any great importance in the delivery of ships in the merchant marine because there is a penalty attached to these. There is a very severe penalty attached to the matter of a bid that you accept and don't produce on.

So the matter of these delays certainly Mr. Boyd is not worrying about, delaying, delaying, delaying on a matter of consensus that he must have before he goes to the President of the United States.

But a year ago we had a consensus. We had industry and labor and everybody else in agreement that there would be no building abroad, that the Maritime Administration would be an independent agency, but he wouldn't accept this. It was not his consensus that we had. He wanted another consensus, because as Under Secretary of Transportation for the Department of Commerce, he is one of the authors, the architects of the interagency task force report, which is the basis of his Boyd program which I call the null and void program. [Laughter.]

You see? Now when you get into this situation of 30 ships a year for 5 years and you are going to build ships abroad, two and a half in this country against one abroad, again I say where is the money coming from? The subsidized lines, 13 in CSAL and of course the Isbrandtsen and American support is another one. And they have about 305 ships.

Now, they put on the line that they got money for 38 ships. Thirty-eight ships when? This year? Next year? Five years? They got the money. They got it in the construction reserve fund, of course, but building up?

Why won't they have money for 38 ships? But how many years are they going to have these 38 ships built in?

I think, as a practical labor unionist, and a citizen that believes in trying to face the issue, that we ought to take this program apart and see what it consists of that Mr. Boyd is proposing.

The matter of building abroad is an enigma. I don't even believe in this loose talk if you can't build them in the shipyards of this country, then let's build them abroad. Where have we ever been given the chance to build them in this country? We have never been given the chance. We haven't had any program. You put these ships in the yards and it is a matter of economy, economics, no question about it, as you have said, Senator.

If these ships are put in, the price goes down. It is axiomatic that if you start building a series of ships they will drop and drop and drop until you will reach about the seventh or eighth ship and they level off.

But they still level off to a lower price than the original one and even the sixth or seventh will be below the fourth or fifth, so there is no question if you get a series of ships you can build them much cheaper than if you only get one or two ships or something of this kind.

Now, the question comes up about direct subsidies. I don't understand where there is any question about direct subsidies. I argued this out with some of the shipping people. The money that the Government of the United States puts up, they pay directly to the shipyard. The money that the shipping lines pay, the subsidized lines pay, they pay directly to the shipyards.

So where is there any question about direct subsidies? Only in the matter: we have such a wonderful law in the 1936 act that it isn't actually—I agree it isn't actually a direct subsidy to a shipyard because a shipyard has to bid for the ships in the first place. Nobody gets the money from the Government. They don't negotiate with this or that yard. They have to bid for them.

But it is the best system that there is. I just came back from a meeting, a shipbuilding meeting at New Castle upon the Thames in England with most of the principal union people in shipyards throughout the shipbuilding centers of the world and they have got all kinds of fantastic deals in which they subsidize their shipbuilding and shipping.

You try to look below the carpet to find out what they have and all you find out one way or another, every country subsidizes their shipping except France, Italy, and the United States which pays somewhat directly.

So these are the things that are posed in this thing and I don't believe that the Boyd program will go anywhere. First off, he makes the very poor presentation of 5 years. I don't believe that the Congress will buy any 5-year program.

Mr. Boyd is now the Secretary of Transportation. A short while ago he was the Under Secretary of Commerce. Next month he may be somewhere else. When you build a program upon a personality, it is no good. It has to be built on the needs.

You and I know what the needs are. We realize, as you pointed out, the Vietnam situation, we have the Russian situation. We have the situation that Russia is not only outbuilding us and so forth and so on but the Russian Government is doing things way beyond what we anticipate or ever speak about.

I have read articles about how they have built canals all through the whole of Russia for the carrying of cargo so now they can get access to any area of 75 percent of the world's surface, water surface.

Then they not only have this, they have oceanography and they were in this before us, all of these things, it seems to me, that our Government ought to take into consideration when we are talking about a merchant marine, what it should amount to and so forth and so on.

When you talk about 30 ships, 150 ships in 5 years and possibly 60 ships abroad, you are not even talking about the replacement program.

Mr. Boyd is actually talking of a replacement program. He doesn't mean to increase the U.S. merchant marine based upon what is happening today as has been pointed out with figures by the previous witness that we are increasing our imports and exports considerably every single year along with our gross national product and that because we are, where our percentage is lessened every year, and it will lessen until it gets down to a figure which is almost negative, based on the fact we are getting a percentage of the imports and the exports and for this reason, we not only have to look at the merchant marine as a replacement of 965 ships or whatever we have, we have to look at it as being able to carry at least 7 percent of our cargo.

Now, we are talking in terms of 30 percent. That means a gigantic program of building, nothing in the area of 30 a year. But as has been pointed out by the previous witness, somebody has to put up the other amount of money.

The Government puts up the 55 percent. Somebody has to have that other money. I haven't heard from anybody else where this money is coming from. I haven't heard from the previous witness how much money he has or his people, his clients have for rebuilding or building. CASL says 38 and they have repeated and repeated this. A year ago they said 100 but they brought it down realistically now to 38, I believe.

But in all of these things there are a great many ifs and this is what the Congress is faced with. Congress is faced with a situation that you have the Maritime Administration to settle and as far as I am concerned the Maritime Administration ought to be an independent agency, the nature of the task the Maritime Administration handles is such that there is no question it should be an independent agency.

I don't even agree that if we get a program that the Maritime Administration can be placed over in the Department of Agriculture, anywhere. I say if you get a program, then you ought to have a good strong structure to administer the program because it is no good getting a program and then having a Nick Johnson being put in at the Maritime Administration who destroys everything.

And the day after tomorrow he is over in the FCC or somewhere else causing trouble over there. [Laughter.]

So you see these situations are such that I agree that the Congress itself has to take a serious look at this situation and not be sold by any process that Mr. Boyd has because he doesn't have any understanding of what he is trying to sell.

In the first place, you tell me—or anybody please tell me—what he means when he talks about a subsidy to the shipyards and a subsidy to the shipping lines?

He doesn't know what he is talking about. He also goes further and says out of the appropriations for 30 ships to be built in the United States and 12 or whatever it is to be built abroad, none of that money—none of that money is going to be used in this other program.

Well, where is this money coming from? Somebody is going to appropriate money for this program. I don't believe the Congress will ever buy this kind of idea; you see?

Senator BREWSTER. Thank you very much, Mr. Pettit. With reference to S. 340, if we required previous Congressional authorization for a Federal shipbuilding program, the authorization could be very precise and it could state where ships would be built and through this

authorization we could require, if we saw fit, that ships be built in the United States.

Now, you mentioned that our present—

Mr. PETTIT. May I address myself to that just a second, Senator? This is very important.

It is very important because you and a number of others have demonstrated this very thing in the Congress of the United States with the procurement and with the appropriation of the Department of Defense in which you have gotten into the bill before the Congress amendments to prevent the use of any of those funds for building naval ships abroad, true, in the authorization this year for the Defense, the Senate made a statement that it was in great sympathy with this but because of the "Buy America" Act there were some commitments the Government made and they had to stand up to them.

But when the appropriations came up in the House the same sort of language was put in. There has always been for a considerable length of time as you have had a part in it, an amendment to the Defense Department's appropriation that no components will be bought with this money in foreign countries.

So at no time has the Congress ever given any sympathy to any shipbuilding, naval or maritime, abroad. You are quite right, sir.

Senator BREWSTER. You mentioned that our present program, authorized and funded, of some 36 ships has not been fully implemented and carried out. Is this because there are insufficient skilled workers in the shipyards of American to build ships that have already been authorized and funded?

Mr. PETTIT. No, sir. This is not so. No. 1, as I say, the Newport News Yard has received one of the vessels. American Mail Line, they bid in on three or four at one time and had an option for a fourth or fifth or something.

So they got that based upon that previous bid. That is one ship. There are 11 lash ships, five prudential and six for the Far Pacific Line. These are the type that will have these tremendous barges aboard them.

Then there are the Lykes Seabees, these are the only ones anybody is talking about. When they are going to be put up for award, I don't know. There has been any number of dates submitted and I have seen up to December of 1967, but the point I make here is there is 11, three, one, but nobody in the subsidized group has come forward to build the rest of them.

Yet they are saying they need ships so badly, why don't they come forward? The money is appropriated. It is there. The Maritime Administration can't find anybody to say this is your ship or that is your ship. This is what I am saying, that if we need these so badly, why isn't something being done about it by the CASL group, AMMI group, by somebody, by Mr. Body, by somebody?

Senator BREWSTER. Mr. Pettit, my question is: Is the shipbuilding work force, the labor force, of sufficient size and quality to build the ships that have been authorized and funded today?

Mr. PETTIT. Yes, sir.

Senator BREWSTER. And is this same work force of sufficient size and quality to build a very substantially larger number of ships in the U.S. yards today?

Mr. PETTIT. That is true, sir; yes, indeed.

Senator BREWSTER. I gather from your statement that you would vigorously differ with Alan Boyd's statement that if we build many more ships in America we will drive the price way up.

You argue, I gather, that if we put more ships in the yards with steady work in the yards that efficiency will increase and the cost per unit would come down?

Mr. PETTIT. No question about it. There is positive proof in the examples over the years. Any of these shipyards, Sparrows Point Yard, Maryland Drydock, any of these yards can give you figures where they have had any series of building of ships that they can cut the cost.

I have seen, right after the war, a yard like the Quincy Yard of Quincy, Mass., take on a program of building 10 tankers and competing against the best tanker yard in the United States, the Sparrows Point Yard, and cut the manhours down so much it astonished me even with my experience in shipyards because they had 10 to build and they had a program that they could adjust themselves to accordingly. This is true of all of them. The mariners, when we were building the mariners, each yard got five mariners and there is no question that with those five mariners they were able to cut the cost down considerably.

In fact, I have always regretted—you know, we got authorization for 50 of those at the time and only got money for 35. The Government would have saved a pile of money had we gotten the appropriations and if we had at that time, the authorization, your bill, we would have gotten 50 mariners instead of 30. And they were good vessels.

Senator BREWSTER. Mr. Pettit, can you give us the national picture, or Mr. Gerson, can you give us the regional picture on the percentage of unemployment in shipyard workers.

In other words, what portion of the work force, nationally or regionally, is now employed?

Mr. GERSON. I wanted to make a comment. My comment is this: I agree wholeheartedly with Andy on the fact that there is sufficient people employed today—there are sufficient people around to do the job of building more ships but unfortunately, unless a bill such as yours or some other factor comes into being which will do more to emphasize the need for a larger shipbuilding program and emphasize the need to get the funds from the Appropriations Committee in time because of the unstable work in these shipyards, it is my opinion that we will have less and less people available to work in these yards.

Then the thing we consider our fourth arm of defense will be out the window, just like our Air Force. If we stopped building and stopped making progress in the kind of airplanes we build and should anything happen, we will have a lesser opportunity to defend our country and the same in my opinion at least applies to the yards.

Unless something is done to maintain a stable type of program which will enable a stable type of employment to exist, we will not in time have enough people and this to me is most important.

I think you can go back over the years and you will find that the cost, every time we got into some situation in the world where we had to immediately build a tremendous shipbuilding program, the costs were fantastic and had some sort of a program been adopted to have a certain level of shipbuilding on that overall costs would have been considerably less.

Senator BREWSTER. Now, gentlemen, can you answer the question I propounded about what percentage of the skilled workers in your industry are now actually employed?

Mr. PETTIT. Well, when you get into the area of percentage of skilled workers employed or not employed in the shipbuilding industry, in the ship repair industry, you get into a situation that you have to realize, of course, as you do, that the ship repair goes up and down and you really can't pinpoint at any one time almost how many people are laid off or how many people are employed.

In the area of ship construction at the present time, I would say that possibly, if you checked the figures, you would find there would be very few people laid off in the shipyards, skilled people.

There is no question, as Jack has pointed out, that we have a scarcity of skilled people in the new construction yards at the present time, and as Jack has pointed out, that is not because of lack of—that is not because of the lack of these employees due to their all being consumed, the seniority listing being exhausted.

It is due to the fact that people leave the shipyards when there is no work and because of the lack of work they don't come back. But if a program came about where they were sure of a few years of work you wouldn't have trouble getting these people back. They are in the building trades and other endeavors.

If the building trades should slow up a bit, you would find these people back at your door looking for work. There are programs at the present time in the shipyards for training skilled people and so forth way beyond most of the industries in the country.

For instance, we had a hearing the other day in Washington in which the local president of Quincy, Mass., came forward. They have 1,000 people per day training in the shipbuilding industry in that one yard.

This is multiplied by training programs by Bethlehem Steel, Maryland Drydock, and every other shipyard in the country has these programs.

As I say, this isn't because we can't get skilled people due to the fact that we got too much work. It is because we don't have enough work. I can point out to you in the matter of whether we can meet our commitments on an enlarged program of merchant ships, I just point out to you, just check over the last 15 years the amount of naval work that has gone into the shipyards.

It has increased from a very low point to where we probably do safely, I would say, 60 percent of the new construction of naval shipbuilding and there has been no problem in meeting this program. This is new construction.

Senator BREWSTER. Let me add this comment: As you know, this committee authorizes Coast Guard ship construction, and this year we put a clause in the Coast Guard authorization bill that the construction must be in the United States and not abroad.

Mr. PETTIT. There, again, that points up that the Congress has always taken this precaution in the matter of shipbuilding.

Senator BREWSTER. Gentlemen, thank you very much for testifying before this subcommittee this morning.

Senator BREWSTER. Our next witness is M. L. Ingwerson, president of the Maryland Shipbuilding & Drydock Co.

We welcome you before the subcommittee this morning, sir. Do you have a prepared statement?

Mr. INGWERSON. Yes, sir; I do have a prepared statement. Also, I can say that I am accompanied by Mr. Alan Clark, from the Shipbuilders Council.

STATEMENT OF M. L. INGWERSON, PRESIDENT, MARYLAND SHIP-BUILDING & DRYDOCK CO.; ACCOMPANIED BY ALAN CLARK, SHIPBUILDERS COUNCIL

Mr. INGWERSON. Mr. Chairman and members of the subcommittee, we are delighted that you have seen fit to conduct a portion of your hearings on S. 340 in Baltimore. We are grateful, also, for this opportunity to speak out in support of that bill.

For some years now the Congress, acting through its committee structure, has reviewed in detail the administration's proposed programs for the Navy and Coast Guard. Types of ships, numbers, assigned missions, all are carefully weighed and, as necessary, investigated in detail to make certain that the proposed programs do in fact meet the demands of our international goals. We believe that the American merchant marine is also important to the conduct of this Nation's international affairs, and submit that its programs should, therefore, be subject to the same serious review by the marine committees of Congress. Too often in recent years our merchant marine programs have at times been instantly prejudged, and almost always absolutely prejudged by minds inexperienced in the basic needs of an American manned and built merchant marine.

Let me cite briefly two examples of this prejudgment and the fallacies it has embraced:

1. We have been told that if our shipyards are forced to compete with foreign shipyards, we can become competitive in the international marketplace. Commonsense, it would seem, would tell the prophets that all of the long-range planning and mass production elements known to the industry, both here and abroad, and incidentally most of which had their beginning in this country, cannot possibly overcome the higher American wage structure. One need only look at what the shipyard does not control in the construction cost of a ship to see why labor costs play such an important role. The shipyard does not control the price of steel, nor propulsion machinery, nor electrical components, nor really any of the very many pieces of equipment which go into a completed ship. How then can we possibly compete pricewise internationally?

2. We have been told that Swedish and Japanese shipyards are up to four times as productive as American shipyards in the fabrication and erection of ship steel. And yet, no one will take the time to check the figures gathered by the administration's economists. If these figures had been checked with the industry here, it would have been found that Swedish- and Japanese-built large-size tankers and bulk carriers were being compared to American-built general cargo ships, which in individual size are a fraction of the foreign-built ships, and which in configuration are many times more difficult to fabricate and erect, either here or abroad. This is tantamount to comparing the cost per square foot of a large open garage to the same unit cost of a small

office building. Such a comparison is not only misleading—it is absolutely unjust.

The propensity on the part of this as well as previous administrations to assign low priorities and minimal appropriations requests for maritime affairs is a matter of record. Budgetary expediencies, unrealistic ship-replacement programs and negative attitudes by successive stewards of our country's maritime resources account for the present deplorable condition of our maritime fleet.

If we lived in a tranquil world this neglect of our maritime needs might be understandable. Yet, as we know, since the end of World War II a series of military conflicts—the Korean war, the Suez crisis, Cuban conflict, and our current involvement in Southeast Asia—has reasserted the vital need for self-sufficiency in terms of ships and shipyards.

In addition to erroneous conclusions reached through hasty judgment, we have been told that our country cannot afford to subsidize an American-built, American-crewed merchant marine capable of carrying a substantial part of our foreign commerce that the Merchant Marine Act of 1936 anticipated. In other words, it cannot afford to pay for the higher American wage rate. Why select out the American seamen and shipyard workers? Are they to be any less privileged in obtaining for their families an American standard of living? There are thousands of items that can be purchased at less cost abroad in the cheaper labor areas. Why single out ships, and the men who build and sail them?

Gentlemen, I do not mean to involve you in an airing of our industry's problems at this time, but I do wish to point out to you at least some of our problems so that you will see clearly our need for a platform from which we can address our problems to an intelligent, understanding arm of government which has the power to provide solutions. Your bill, we believe, will provide this platform. We therefore endorse S. 340 wholeheartedly and strongly recommend its passage.

Senator BREWSTER. Thank you very much, Mr. Ingwerson.

As a president of a large shipyard, do you believe that an increased supply of work, a larger number of ships being built at Maryland Shipbuilding & Drydock, would result in higher per unit costs or lower per unit costs?

Mr. INGWERSON. Definitely we feel that we would produce it at a lower unit cost. It stands to reason. And also through the industry—if you will make an analysis of the bids which have been made over the past 10 years, you will even see a decrease in cost for a more complex ship and this we have charted out from the maritime and the results of the bids and have pretty good proof of that fact.

Senator BREWSTER. How do you explain this apparent paradox that the U.S. aircraft industry is highly competitive internationally and in fact is the leader of all aircraft production or construction internationally, whereas the U.S. shipbuilding industry now lags far behind the international industry?

Mr. INGWERSON. Well, one of the reasons I believe that this is so is that the aircraft industry basically had its origination in the United States and only a few of the foreign countries were really interested in building aircraft, so it had really its birth here. In doing so, they

were able to build the factories. They were able to automate. In doing so, they received substantially the bulk of orders throughout the United States and also many of the foreign countries. In that fashion, pretty well we had an advantage over the other countries in getting started in it.

On the other hand, shipbuilding in the United States really wasn't started here. It was started, of course, in Europe and so on, and pretty well tried to build their own group of ships, such as Britain, which at one time was the power of the sea, had shipyards and was known as the best shipbuilding country in the world, and built their ships and all—I don't know of many British ships being offered to other countries in the world for competition—going back quite a ways now.

Then when the United States could get somewhat competitive prior to World War II, and in World War II all of the shipyards in the other nations, especially in the European nations and in Japan, were bombed out and the United States also appropriated considerable funds to rebuild the yards and anybody in rebuilding the yards again put in automation and practices which the aerospace industry has presently into their facilities.

The United States on the other hand didn't have this destructive part taken in the shipyards and therefore they are still going with considerable equipment and facilities which were prior to World War II and some added in World War II. But in doing this they never really redesign the yard on an automated basis. It was built onto and added onto and not really started anew, such as the yards we are trying to compete with at this time.

Also, in doing this, the shipyards have never felt that they could put a considerable amount of improvement or capital or start anew unless they had a basic program in which they could see their capital being amortized over a period of years with a definite program which they could compete in.

As you know, the first thought of any new shipyards being built of any magnitude was brought out here with this FDL program and we found a lot of the yards were interested in this—at least three of the concerns were interested in this because of the magnitude of the program in which they were assured of if they went into it.

Senator BREWSTER. If Maryland Shipbuilding & Drydock Co., as one company, or the existing shipyard industry as a whole, were assured of steady and increasing work over a period of years, is there no reason why you could not modernize your yards so as to be far more competitive than you now are? Or is it necessary to build entirely new shipyard building facilities such as has been suggested by the Secretary of Defense?

Mr. INGWERSON. I think if a program was defined in which it was a long period of employment and of contracts, that many of the existing yards could be transformed into a more modern yard by adding the capital into them. That has been the opinion of some of the yards which were even in the Secretary's program and I think the Secretary's program at one time came out and demanded a new yard be built and this was later modified that you could alter a present yard. And a considerable number of the people felt that they were going to alter the yards.

Some of the companies, because of the volume of business and the competitive position they have been in, specially on the large military craft, have gone ahead and are putting considerable modernization programs in.

You will also note that in some of the programs which are out now, such as the DE programs, LST programs which come out in large quantities of ships, as soon as this was awarded to the various yards they came through with a large appropriation for capital improvement in order that they can build the ships cheaper and they are all using the learning curve analysis of the bids on the LST's and DE's, the multiple ships, because we had to submit bids down the line into the multiple and you will see they are decreased considerably from the first to the 10th, and so on.

Senator BREWSTER. A suggestion has been advanced that existing shipyards be modernized through either insured loans or low-cost Government loans. Do you think this would serve any useful purpose to go into one of these type programs?

Mr. INGWERSON. I feel again that we have to have a definite program of construction of a workload before you can really go into saying you are going to make these capital improvements. I think you have to prove either to any financial person, whether it be private or the Government, that you are going to have some way of paying this off. I am sure if the program has been as indefinite as it has been and a reducing program all the time, that it would be a real hard thing to justify of taking a loan on, and I think the stockholders and all would be very reluctant to go into it unless they had some positive program.

Senator BREWSTER. Does the present system of granting construction subsidies on a semicompetitive basis through the operators to the yard work successfully or as has been heretofore suggested a more direct-type subsidy to the yard, would that work more efficiently?

Mr. INGWERSON. I don't see the difference in efficiency of either proposal, either coming through the operator directly to the shipyard. The bids are directly competitive. You put your full price in with the ship. The construction-subsidy percentage has been always argued out between the Maritime Commission and owner, whether it be them or the shipyard I guess it would have to be if it was directly to the shipyard—

Senator BREWSTER. There is no basic problem here.

Mr. INGWERSON. There is no basic problem. I don't think we object to the one paying directly to the shipyard. The only thing that everybody would like to see is definitely how it would be handled. All that has been said is, if it would be paid directly to the yard, would that be satisfactory, but nobody came out with any more definitive program than that. How are they going to measure it? This is one of the basic things which hasn't really been explained.

Senator BREWSTER. Now, sir; I am quite sure that you would oppose building U.S. ships in foreign yards, but let me ask you to attempt to be objective. Do you think, in the long run, the U.S. taxpayers will save any money by building U.S. ships in foreign yards, taking into account the loss of taxes, balance-of-payment situation, loss of employment, loss of the productive capacity of the U.S. yards in case of national emergencies, and the possible increase in foreign prices?

Mr. INGWERSON. I almost have to say that I feel we would even—the taxpayers might have a loss in the situation. We have started to work this out and haven't finished the analysis on it, but the analysis so far, even in its unfinished phase, has a tendency to show it would be a total loss to the country—to the country, it would be on the loss side if we built foreign.

One of the big things people don't realize in here is again that the shipyards in a lot of cases, in a majority of cases, are an assembly yard, the components of the ship brought in from other manufacturers in the United States because in the merchant contracts there is a Buy American Act where all the components, all the elements making the component have to be 100-percent American. This amounts to about 55 percent of the total selling price of the ship.

So it is not only the shipyard itself which is involved but you have all the basic industries in the country such as your machinery manufacturers and steel, and so on, that also provide a great percentage of the cost.

In our foreign building, in which it has been noted that a good percentage of the machinery and the components of that ship are going to be manufactured foreign, so it is not only the shipbuilding we are talking about with the tax and losses, it is also our suppliers.

Senator BREWSTER. This next question may be impossible to answer, but if you can give us general percentages I believe the committee would be interested.

What percentage of the cost of the average general cargo ship is the result of yard activity in assembly as compared to the percentage of the cost that is attributable to your suppliers, your subcontractors, and to your raw materials?

In other words, the point I am trying to get at is: Doesn't the construction subsidy, to a large extent, go not to the yard but also to all the people that supply the yard with services or materials?

Mr. INGWERSON. This is correct, because the percentage, which varies by the type of the ship, and it varies anywhere, I would say, from 45 percent to 55 percent, is spent on materials or money paid out by the yard to other suppliers or subcontractors. So, therefore, you would say that it is at least half, if not in most cases the majority of the money is paid out and does not go to the yard.

Senator BREWSTER. So the general economy of any community that houses a shipyard also benefits from the ship construction subsidy program?

Mr. INGWERSON. That is true.

Senator BREWSTER. Mr. Ingwerson, we thank you very much for taking time out of your very, very busy day to appear before this subcommittee this morning. All of Maryland has every reason to be very proud of the company you represent and we thank you very much for appearing here.

Mr. INGWERSON. Thank you very much for having us. It has been a pleasure.

Senator BREWSTER. The subcommittee will reconvene tomorrow morning in the New Senate Office Building to take further testimony on S. 340 from witnesses representing the U.S. Government. The hearing stands adjourned.

(Whereupon, at 11:55 a.m., the subcommittee was recessed, to reconvene at 10 a.m., Friday, July 28, 1967, in Washington, D.C.)

STATEMENT OF CARL C. DAVIS, GENERAL COUNSEL, MARITIME
ADMINISTRATION DEPARTMENT OF COMMERCE, ACCOMPANIED
BY WILLIAM R. BURCHILL, ASSISTANT GENERAL COUNSEL,
DIVISION OF LEGISLATION, MARITIME ADMINISTRATION

FUTURE AUTHORIZATION OF FUNDS FOR THE MARITIME ADMINISTRATION

FRIDAY, JULY 28, 1967

U.S. SENATE,
COMMITTEE ON COMMERCE,
SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:25 a.m., in room 5110, New Senate Office Building, Hon. Daniel B. Brewster presiding. Senator BREWSTER. The subcommittee will come to order.

This is a continuation of the hearing on S. 340, a bill to amend section 209 of the Merchant Marine Act of 1936.

The subcommittee held hearings in Baltimore yesterday and hopefully will conclude the hearings on this measure here this morning.

The chairman of the Commerce Committee has received a communication from Ralph K. James, Rear Admiral, U.S. Navy (retired), executive director, Committee of American Steamship Lines, supporting S. 340. This will be placed in the record of the committee hearings at this point.

(The letter referred to follows:)

COMMITTEE OF AMERICAN STEAMSHIP LINES,
Washington, D.C., July 21, 1967.

Hon. WARREN G. MAGNUSON,
*Chairman, Senate Commerce Committee,
Senate Office Building, Washington, D.C.*

MY DEAR MR. CHAIRMAN: I am informed that the Merchant Marine Subcommittee of the Senate Commerce Committee will conduct hearings on Friday, 28 July, on Senate Bill 340 to require all Merchant Marine Programs to receive the authorization of the Senate and House Merchant Marine and Fisheries Committees prior to funding action in the House.

The Committee of American Steamship Lines, consisting of thirteen subsidized steamship operators, heartily endorses the concept of S. 340 and urges your Committee to report the Bill favorably to the Senate for final enactment.

Sincerely yours,

RALPH K. JAMES,
Rear Admiral USN (Ret.), Executive Director.

RKJ/lm

Senator BREWSTER. The first witness this morning will be Mr. Carl C. Davis, the General Counsel of the Maritime Administration, Commerce Department.

Mr. Davis, thank you for taking time from your busy day to appear before our subcommittee this morning.

STATEMENT OF CARL C. DAVIS, GENERAL COUNSEL, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE; ACCOMPANIED BY WILLIAM R. BURCHILL, ASSISTANT GENERAL COUNSEL, DIVISION OF LEGISLATION, MARITIME ADMINISTRATION

Mr. DAVIS. Thank you, Mr. Chairman.

Senator BREWSTER. Mr. Davis, if you are accompanied by someone who may testify, will you identify him for the record?

Mr. DAVIS. Yes. I am accompanied by Mr. William R. Burchill, Mr. Chairman, who is the Assistant General Counsel in charge of the Division of Legislation, Maritime Administration.

I do want to state in advance that the notice of the hearing we received was to the effect that the hearing was on S. 340 and H.R. 158, so I have prepared my testimony covering both bills.

Senator BREWSTER. Mr. Davis, you are entirely correct, and both measures pertain to the same subject. So please testify on both.

Mr. DAVIS. I appreciate this opportunity to present the views of the Maritime Administration and the Department of Commerce on S. 340 and H.R. 158.

H.R. 158 would amend section 209 of the Merchant Marine Act, 1936, to provide that after December 31, 1967, there are authorized to be appropriated for the use of the Maritime Administration for:

- (1) Acquisition, construction, or reconstruction of vessels;
- (2) Construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships;
- (3) Payment of obligations incurred for operating-differential subsidy;
- (4) Expenses necessary for research and development activities—including reimbursement of the vessel operations revolving fund for losses resulting from expenses of experimental ship operations;
- (5) Reserve fleet expenses;
- (6) Maritime training at the Merchant Marine Academy at Kings Point, N.Y.;
- (7) Financial assistance to State marine schools; and
- (8) The vessel operations revolving fund, only such sums as the Congress may specifically authorize by law.

S. 340 is similar to H.R. 158 except that S. 340 does not follow the language of the appropriation act as closely as H.R. 158; S. 340 would limit the authorization for appropriations to each fiscal year, whereas under H.R. 158 the appropriations could be made to remain available until expended; and S. 340 would appear to prohibit MSTTS from making available to the Maritime Administration amounts necessary to reimburse the vessel operations revolving fund for the expenses of breaking out and operating general agency ships unless the amounts were specified in the annual authorization bill. We prefer the language of H.R. 158.

The purpose of the bills is to require the Department to submit its proposed programs for the Maritime Administration for the activities listed in the bills to your committee and the House Merchant Marine and Fisheries Committee and obtain their approval of such programs and enactment of an authorization bill before appropriations could be made to fund these programs.

The bills would have an impact upon procedures in the Department, in that Department officials would have to appear before four committees of Congress before appropriations could be obtained rather than before two committees as at the present time. We are, of course, always glad to appear before your committee, as we did before the House Merchant Marine and Fisheries Committee this year, to explain the programs of the Maritime Administration and to furnish any information the committees desire.

The requirement for authorization bills has delayed enactment of some appropriation bills. House Report 1662, dated June 27, 1966, accompanying House Joint Resolution 1180, making continuing appropriations for the fiscal year 1967, states that the Committee on Appropriations original plan was to bring all the regular annual appropriation bills to the House by June 16, but that "the schedule has suffered considerable disruption largely from delays in reporting or otherwise processing several related annual authorization bills."

Senate Report 366, dated June 27, 1967, accompanying House Joint Resolution 652, making continuing appropriations for the fiscal year 1968, contains the following statement :

As in previous continuing resolutions, authority is granted for the continuation of certain programs for which required legislative authorization has not been enacted. Examples of these programs are: Programs and activities of the Office of Economic Opportunity; programs and activities of the National Aeronautics and Space Administration and activities under the Food Stamp Act.

In his testimony before the Joint Committee on the Organization of the Congress on August 31, 1965, Charles L. Schultze, Director of the Bureau of the Budget, stated (p. 1779) that virtually one-third of the budget is now dependent upon renewal of authorizing legislation each year before the Appropriations Committees can, under the rules, report appropriation bills to the floor and that :

This creates a real difficulty for the Executive Branch—in the late enactment of appropriations, in the indecisiveness and inability to make sound plans for the year being considered, in the requirements for Executive Branch witnesses to explain their program at least four different times to four different committees each year—and giving agency heads that much less time to think and manage—in the immersion of the legislative committees as well as the Appropriations Committees in the details of administration to the detriment of taking the longer range, broader view of missions and objectives, and in prolonged Congressional sessions which, in turn, hurry the Executive Branch beyond the economical point in reaching decisions on legislative proposals and the budget in the short time between sessions.

If, after consideration of the foregoing, the committee concludes that our voluntary appearance before the committee, to explain our programs, will not adequately serve the committee's purposes, the Department would have no objection to favorable consideration of H.R. 158.

Thank you, Mr. Chairman. I will be glad to answer any questions I can.

Senator BREWSTER. Thank you, Mr. Davis.

So your conclusion is that the Maritime Administration, whether it be in the Commerce Department, the Transportation Department, or an independent agency, would have no objection to explaining its

wishes to the Commerce Committee or this subcommittee of the Commerce Committee?

Mr. DAVIS. Not at all.

Senator BREWSTER. In your statement you say, "In the annual authorization bill." You meant authorization bill?

Mr. DAVIS. I meant authorization.

Senator BREWSTER. I was sure you did, and I just wanted to clear that up.

Now, I would like you to address your attention to the middle of that paragraph where you refer to "appropriations could be made to remain available until expended." What is the advantage to the Government or to the country of having the appropriations available for long periods of time rather than having their expenditure be required in each fiscal year?

Mr. DAVIS. Well, let me use as an example the construction of a ship, Senator.

It takes about 2 years to construct a ship, and we get an amount of appropriations, and we make progress payments on the construction of the ship.

If you follow the language here, only the progress payments would be made during that particular year that we have funds available to make them. Then we would have to wait until new moneys were appropriated before we could make the progress payments for the continuation of the ship.

As things develop sometimes we could incur delays. Shipyards need these advance payments in order to do this construction work and might have to borrow money to pay employees, to buy materials, et cetera.

It is better to have moneys appropriated there until expenses—in the example I used, until a ship is built.

Senator BREWSTER. Mr. Davis, it is my opinion that the United States should proceed with the rebuilding of its merchant fleet with all deliberate speed. If we authorize appropriations that will be lasting over a period of many years, will this enable the Bureau of the Budget or an administration that is reluctant to build ships to spread out the payments over a longer period of time and therefore delay our shipbuilding program?

Mr. DAVIS. No; it will not, Mr. Chairman. Of the type that I am talking about we have an annual ship construction program. That program is approved. We know who the operators are who are trying to have the vessels built, what shipyard is going to build them. But the moneys will not all be expended in that particular year.

Now, what I am addressing myself to here is what I will characterize as technical changes to bring it more in line with the way our appropriation language in our appropriation bill is set up.

I might say that on the House side, their bill, which was the original H.R. 158, was written as S. 340 is now. They invited me to appear in executive session with them with respect to technical changes, and they made those changes that would authorize you to continue holding those moneys until expended.

In other words, our vessel operations revolving fund is a continuing fund.

Senator BREWSTER. It is my understanding we are now embarked upon a shipbuilding plan of some 13 ships a year, and we have funded some 26 ships, but that only approximately half of these have actually been contracted for. Why the delay here?

Mr. DAVIS. The funding for the 26 ships, Mr. Chairman, is over a 2-year period. Insofar as the operators whose applications have been approved, and who have gotten in and completed plans and specifications necessary to get out the bids, and so forth, contracts have been let. These are merely technical delays. They will not make any difference in respect to the number of ships built.

Senator BREWSTER. These delays are not a matter of policy—

Mr. DAVIS. No.

Senator BREWSTER (continuing). Or budgetary reasons?

Mr. DAVIS. They are not policy or budgetary. The ships will be built.

Senator BREWSTER. Secretary Boyd has tentatively or in part recommended that we build some 30 ships a year in U.S. yards. If there is some delay in implementing the construction of 13 ships, do you believe it would be possible administratively to enter into contracts for the construction of some 30 ships a year?

Mr. DAVIS. Yes; I do, because it is all a matter of getting in your plans and specifications.

We are going through a program right now with what I will characterize as new-type ships. It takes longer to develop plans and specifications, get a few bugs out of your plans and specifications, on those, Senator, than it does with respect to what I call conventional ships that you have been building.

Senator BREWSTER. Who is actually developing these plans and specifications? The administration, the yards, or the operators?

Mr. DAVIS. Well, they are developed by the operators, but through utilization of marine architects. They are not developed by the yard. They are developed by the operator and marine architects.

Senator BREWSTER. So if there is a delay in plans and specifications, the delay is on the part of the operators or is on the part of the Administration in approving the plans that have been submitted to you.

Mr. DAVIS. We do check the plans, but I do not know of any delays that have occurred by reason of our being behind in checking the plans and specifications. It is not going to disrupt the building of ships. The ships will be built.

Senator BREWSTER. So you would see no reason that this committee should worry that at the very least we would go ahead with what little construction planning and funding we now have?

Mr. DAVIS. Not at all.

Senator BREWSTER. Thank you very much, sir.

Mr. DAVIS. Thank you.

Senator BREWSTER. We will next call Mr. Earl Clark, the codirector of the Labor-Management Maritime Committee.

I see that Mr. Clark is accompanied by Mr. Hoyt Haddock, who I believe is also the codirector.

Mr. CLARK. Yes sir.

Senator BREWSTER. We welcome both of you gentlemen before this committee once again.

Mr. HADDOCK. Thank you, sir.

Senator BREWSTER. Do you have a copy of your statement, Mr. Clark?

Mr. CLARK. I believe it has been distributed. Your staff has copies there.

STATEMENT OF EARL W. CLARK, CODIRECTOR, LABOR-MANAGEMENT MARITIME COMMITTEE; ACCOMPANIED BY HOYT S. HADDOCK, CODIRECTOR

Mr. CLARK. Thank you, Mr. Chairman.

My name is Earl W. Clark. I am codirector of the Labor-Management Maritime Committee. You will forgive me if I borrow from parliamentary language to identify my distinguished colleague, Mr. Hoyt S. Haddock, also a codirector of the Labor-Management Maritime Committee.

The Labor-Management Committee, composed of major steamship lines and seagoing unions, appreciates the opportunity to be heard on the legislation now under consideration by this important committee of the Congress. We support the enactment of S. 340.

The steamship lines represented by this organization are as follows: American Export Isbrandtsen Lines; Farrell Lines, Inc.; Grace Line, Inc.; Lykes Bros. Steamship Co., Inc.; Moose-McCormack Lines, Inc.; and United States Lines, Inc.

The represented maritime unions joining in this statement are as follows:

The National Maritime Union; the Brotherhood of Marine Officers, NMU, AFL-CIO; and United Marine Division, NMU, AFL-CIO.

An associated organization, the American Pilots Association, also joins in presenting this statement.

In addition to our specific statement, we support the basic positions taken by the Committee of American Steamship Lines, the American Merchant Marine Institute, the Shipbuilders' Council of America, as we understand their statement, which is not yet presented, and all other maritime groups or associations who have advocated passage of this legislation.

One of the chief impediments to achieving the objectives of our national maritime policy has been inadequate financing. The deficiency lies principally in the failure of the Government to provide its share of construction and operating funds essential to the task. The need was never more urgent for correcting this deficiency and moving forward to attain our national maritime goals.

The shipping industry, for its part, is progressing rapidly in containerization, lift-on lift-off ships, new types of conventional design, new cargo-handling gear, new electronic and engine room innovations, new safety devices, new compartmentalization, and other modern improvements.

The hulls of our new ships, particularly in the liner category, are stronger and better protected against corrosion than those of most other flags and constant tension winches and bow-thrusters are becoming typical.

Centralized and automated engine room controls, and navigationally operable from the bridge, have made new economies and new efficiencies possible.

New cargo-handling gear goes far beyond that known a few years ago. Hatch covers are automatic; decks have been strengthened to permit mechanical devices; lift operations have been doubled or trebled; holds have been containerized and are served by shipboard gantry cranes; and multiple hatches for flexible cargo stowage are commonplace.

Most of the merchant fleets of the world offer nothing to compare in technical efficiency with the new U.S. liner ships.

In great and preponderant measure, these improvements have been developed by the industry itself rather than through governmental planning. In fact, Government financial contributions to the cost of research and planning developments to date have been relatively insignificant in the maritime field. Actually, the Government has concentrated on long-term new-vessel concepts to the virtual exclusion of practical improvement in current vessel design.

It should be stressed that the Merchant Marine Act of 1936 was not addressed unilaterally to the maritime industry. It was addressed equally, if not more specifically, to the Government itself.

It was the direct and unquestionable decision of the Congress that this Nation have a merchant marine adequate for "the national defense and development of its foreign and domestic commerce."

The Government's obligation to insure this adequacy has been pointedly evaded by a budgetary decision of the executive branch of Government to construct a pittance of only 13 to 15 ships a year in U.S. shipyards under the Merchant Marine Act. Such a decision was obviously concluded in principal measure on the basis of availability of funds in terms of an already overburdened budget. However, this becomes a question of relative values for recent budget planning contemplated over a 5-year period, an approximation of \$935 million for housing and urban renewal; \$6.5 billion for medicare; \$665 million for regional development; \$4.9 billion for the omnibus farm bill; \$1.8 billion for the poverty program, and \$365 million for the Appalachia subsidy.

Without engaging in any specific criticism of these programs, the pertinent question becomes: What degree of comparative value does the Government place on its policy commitment to support a merchant marine adequate for our commercial needs and for the national defense?

For much of the past decade or so, the answer is clearly "not enough"—and principally because of the lack of budgeted funds to underwrite the Government's share of responsibility. This situation needs to be corrected.

The elimination of administrative frustrations in the implementation of our Nation's maritime policies is a basic need. S. 340 is a major step in this direction. For too long successive administrations have presented requests for appropriations to Congress without relating them to the fundamental objective of adequately promoting national maritime policies.

Determination by the Senate Commerce Committee and the House Merchant Marine and Fisheries Committee as to just how our maritime policies are to be carried out is an essential requirement to meeting our maritime objectives.

Not only does this provide the authorizing committees with knowledge it needs to have as to how the laws are being administered, but it provides them a more substantial opportunity to keep abreast of broad program needs and developments.

Additionally, it permits the substantive committees to advise the respective appropriations committees as to whether moneys are properly related to the essentials of policy and program needs.

This problem can best be approached by the enactment of legislation of the nature of S. 340. There is ample precedent for this action. Authorization by legislative committees, as you well know, is neither unique nor unusual. In fact, in many of the more complex areas of national policy where appropriations are essential, the legislative authorization route has been followed and has worked successfully.

Thus, for example, it has been the practice for a number of years for the Congress to authorize annual appropriations for military construction of bases and facilities.

In 1959, this procedure was extended by section 412(b) of Public Law 86-149 (73 Stat. 302; 5 U.S.C. 171a note) to the "procurement of aircraft, missiles, and naval vessels."

In 1962, Public Law 87-436 (76 Stat. 55) extended this annual authorization authority for appropriations over research, development, test, and evaluation associated with aircraft, missiles, and naval vessels.

In 1963, section 610 of Public Law 88-174 (77 Stat. 307; U.S.C. 171a note) further extended this annual authorization authority over "all research, development, test and evaluation, and not only that associated with aircraft missiles, and naval vessels." (H. Rept. 345, 88th Cong., 1st sess., p. 15).

A substantial portion of the Department of Defense budget, therefore, is subject to this annual authorization procedure. The effect of such a procedure is to subject the DOD budget request to the scrutiny, review, and approval of the Armed Services Committee and the Appropriations Committee of each House of Congress, with the Armed Services Committee, as the legislative committee, getting "first turn at bat."

Other laws which gave Congress annual authorization authority include the NASA Appropriations Act of 1959, Public Law 86-45 (73 Stat. 75, 42 U.S.C. 2460); and the AEC Appropriations Act of 1963, Public Law 88-72 (77 Stat. 88, 42 U.S.C. 2017(a)).

One of the reasons for the failure to promote the type of merchant marine called for under the Merchant Marine Act of 1936 has been the tendency to subscribe rather closely to whatever program is proposed yearly by the executive branch of Government, with appropriations patterned after, or principally limited to, such executive proposals.

This is in no way to be construed as a criticism of the Congress. Rather, it is a criticism of the system or practice of dealing solely or principally with Presidential recommendations which bypass the legislative or substantive committees of the Congress.

S. 340 purports to correct this. It will make possible congressional review of maritime programs before financial action is taken by the respective Appropriations Committees and before final approval by the Congress. This is vital if we are to get the maritime program off dead center.

In summary, it will have the following effects:

1. It will provide advance program determinations by the committees of the Congress responsible for our national maritime policy.

2. It will provide greater substantive background to the appropriate committees of the Congress upon which to make financial decisions and judgments.

3. It will diminish the overwhelming policy and program controls exercised by the executive branch of Government.

4. It will provide better balance between the executive and legislative branches in arriving at composite determinations for promoting the maritime strength of the Nation.

These are worthy objectives, Mr. Chairman, and should receive specific attention and favorable action by the Congress.

For the reasons given, we wholeheartedly support the enactment of S. 340, and, to that end, urge favorable action by this committee.

We have appreciated the opportunity to be heard on this very important legislative proposal.

May I add, Mr. Chairman, that our committee would interpose no objection to an amendment which would cover the items found on page 2 of the statement of the witness just preceding us, Mr. Davis, Maritime Administration.

This is with respect to the carryover of available funds in specific cases and the facilitation of reimbursement to the vessel operations revolving fund.

I do not see any particular objection to this, and it might facilitate better administration.

I say this because when I was Deputy Maritime Administrator for some years, including the Korean war years, I had some experience in this matter of funds that were not quite expended at the end of a year but which we had made every effort to try to conclude the expenditures of, but it is not at all possible to do it in many, many instances.

These carryover funds I think we would not particularly have any objection to.

I wanted to make that extra comment after hearing Mr. Davis who just preceded us.

Mr. Chairman, Mr. Haddock, my colleague, and I will be happy to answer any questions you may have.

Senator BREWSTER. We thank you, Mr. Clark.

You note that the Government has pointedly evaded the intent of the Merchant Marine Act of 1936 and has recommended the construction of a pittance of only 13 to 15 ships in U.S. yards.

In your judgment, now, in view of the present conditions of the U.S. merchant fleet, how many ships should be built each year in U.S. yards?

Mr. CLARK. Mr. Chairman, we feel that there should be no less than the 30 ships which have now at least in tentative form been proposed by the administration through the Secretary of Commerce, Mr. Alan Boyd.

We cautiously use the word "minimum" because we would rather see more ships than that built.

But somewhere in the range of 30 to 50 ships if it is possible to get, first of all, that number of ships recommended by steamship companies who will build that many. We certainly would favor even as high as 50.

Senator BREWSTER. So it is the judgment of the Labor-Management Maritime Committee that our present program constitutes less than a half or even less than a third of what is necessary to protect the national defense and develop the foreign commerce of the United States?

Mr. CLARK. That is correct.

Senator BREWSTER. You state that the merchant fleets of the world offer nothing to compare to the technical efficiency of the new U.S. liner ships.

In your judgment, will our new ships, in whatever number they may be constructed, be able to compete efficiently or effectively in the world transportation market?

Mr. CLARK. I would say, Mr. Chairman, that there are no better ships built in the world than are built in our American yards.

I think we have 80 percent of all the fast cargo liner ships in excess of 20 knots in the world. We have more than all of them because of the replacement program in the liner category.

And I would like to state that this achievement has been possible only through an appropriate application of the Merchant Marine Act of 1936.

Had the act been as carefully applied in the fields of bulk carriers, for example, and the ore carriers, and the other segments of the merchant marine, we would be much farther down the road.

But up to date the chief application of the Merchant Marine Act has been in the liner category, and I think the results speak for themselves.

I think they will, in direct answer to your question, be able to compete, the kind of ships we build in this country, yes, sir, with any ships in the world.

Senator BREWSTER. Do you approve of the use of both construction and operating subsidy for bulk carriers?

Mr. CLARK. Yes, on that score, Mr. Chairman, we support the MAC report, the Maritime Advisory Committee report. I think our position is spelled out pretty much along the lines of that report.

We would support this kind of aid in order to make our ships competitive on the high seas.

When I mentioned competitiveness a while ago, I was talking about the competitiveness of the ship itself, not necessarily the economic competitiveness. Because to achieve economic competitiveness you must have at this stage at least operating and construction subsidy in order to achieve it.

Senator BREWSTER. Would you favor the construction of nuclear-powered ships?

Mr. CLARK. Indeed I would, sir.

I think the construction of nuclear-powered ships has to be patterned after the economic feasibility, and it is a matter of progressively developing it not only in terms of its capability operationalwise on the seas but in terms of return for the dollar. I think this is progressive movement and will be achieved over the years.

Senator BREWSTER. In order not to have a repetition of the *Savannah* situation, would it be feasible to require some type of "no strike" clause before the U.S. taxpayers would invest in a tremendously costly nuclear construction program?

Mr. CLARK. Mr. Chairman, with your permission, I should like to refer that question to my colleague, Mr. Haddock.

Senator BREWSTER. Please do.

Mr. HADDOCK. Mr. Chairman, Joseph Curran, cochairman of the Labor-Management Maritime Committee, when appearing before this committee and appearing as president of the National Maritime Union, suggested a formula whereby stoppages of ships should and could be eliminated from the merchant marine.

We would favor the formulation of a program by the steamship companies and the unions which would effectuate the policy which he enunciated—that is, continuation of service at all times.

Senator BREWSTER. So, Mr. Haddock, it would seem then to you that as cochairman it would be an entirely reasonable request on the part of the Congress that if funds are appropriated for tremendously expensive nuclear construction that we have some guarantee ahead of time that the ships will sail?

Mr. HADDOCK. I think this is a reasonable thing to do. Really I think that we have reached the stage in our economic development and our understanding of the problems which confront both labor and management across the bargaining table and in the everyday labor relations where we really ought to begin acting like grownup people.

And while we may want to engage in strikes and lockouts and fight with each other occasionally, we should not permit this indulgence to stop the service to the country or to the people who are using it.

And this can be achieved if we want to do it.

Senator BREWSTER. Mr. Haddock, I am very pleased to hear a most responsible statement from you on this subject.

Gentlemen, thank you very much for your participation in these hearings.

Mr. CLARK. Thank you, Mr. Chairman.

Senator BREWSTER. Now, our last witness this morning, and the concluding witness I believe of the hearings, certainly of this portion of these hearings, will be Mr. Ed Hood, president of the Shipbuilders Council of America.

Mr. Hood, you have testified many times before this committee—

Mr. HOOD. I hope I am not wearing out my welcome.

Senator BREWSTER (continuing). Always with great expertise. And once again we are very pleased to see you here.

STATEMENT OF EDWIN M. HOOD, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. Hood. Thank you, Mr. Chairman.

I deeply appreciate your invitation to comment on Senate bill 340 from the standpoint of the shipbuilders, ship repairers, and allied suppliers who compose the membership of the Shipbuilders Council of America. Your consideration of this bill is not only timely but could prove immeasurably important in terms of our future national maritime effort. My statement is also endorsed by the Western Shipbuilding Association of San Francisco.

The shock to the West of the orbiting sputnik in October 1957 had many effects—some immediate and some delayed. First, of course, was the prompt development of a many-sided space program for the United States to neutralize the new threat. Then, realization that the U.S.S.R. might be outdoing us in different areas led to a review and acceleration of other programs related to national security.

At the same time, the Committees on Armed Services of the U.S. Senate and the House of Representatives, on sober reflections, recognized that it was essential that there be continuous congressional review and control of program expansion. This reaction eventually led to adoption of section 412(b) of Public Law 86-149, approved August 10, 1959, requiring that the Secretary of Defense submit to appropriate legislative committees of the Congress proposed expenditures for aircraft, missiles, and naval vessels so that these committees would have an annual opportunity to study contemplated procurements against the background of the total picture.

When this annual approval requirement was inserted in the law, many had very serious reservations as to its possible implications on our military posture. But the passage of time, we feel, has proved the innate wisdom of the Congress.

In 1963 congressional awareness of the intensifying Russian oceanographic effort plus construction of a nuclear-powered icebreaker by the Soviet Union and a realization of the increasing scope of Coast Guard responsibilities, triggered a second piece of legislation similar to section 412(b).

Senate bill 340, now pending before this subcommittee is an extension of the same thought to include national requirements for merchant shipping—and I would add shipbuilding.

In this case, however, the overt Russian move to control the trade routes of the oceans provides a rational justification.

You may recall that our council has periodically supplied information relative to the magnitude of Russia's objectives aimed at enlarging her merchant fleet so as to eventually, in the opinion of many, dominate world trade. Particular attention was directed to Russia's massive shipbuilding programs. We feel, as you and your associates have frequently stressed, that this obvious attempt at control of the seas must be answered by a U.S. program of counterbalancing proportions.

To do so it is realistic to visualize a maritime program each year far beyond the 12 ships now anticipated for fiscal 1968 by the administration.

Clearly, it will be in order for the Congress to exercise control on this expansion of our maritime effort through a process of continuous review by the responsible legislative committees. The pending bill would accomplish this desirable objective.

Despite all of the dialog and public discussion of the past several years, despite the 1964 promise of a new merchant marine policy, no specific maritime program to meet the Soviet threat, as well as the future needs of our Nation, has yet been formally presented.

Surely, the Committee on Commerce of the U.S. Senate and the Committee on Merchant Marine and Fisheries of the House of Representatives should review any changes in policy plus details as to numbers and types of ships which might be proposed. Both will surely

want to study the size and character of the merchant marine and the level of shipbuilding proposed as a new program—and, if inadequate, would want to make separate recommendations in the manner by which military and Coast Guard procurements are now handled.

Over the last few years, both the Senate and House legislative committees have, of course, held hearings on many of the problems which have arisen in implementing the policies stated in the merchant marine acts. But, in most instances, after the committees' recommendations are filed, the necessary steps of providing the funds for ship construction, or otherwise carrying out the committees' findings, are not taken. Instead, by independent action, the Bureau of the Budget proposes a program based entirely on fiscal financial consideration and then the Appropriations Committees measure the budget requests against fiscal problems.

As a result of this kind of procedure, it is almost certain that the fiscal year 1968 program of merchant ship construction under the auspices of the Government will be limited to 12 vessels and the downward trend of our merchant marine now underway will continue.

Within the next 4 years, the total U.S.-flag oceangoing fleet of general cargo and dry bulk carriers upon which we rely for the support of our military services in time of emergency will drop from about 700 vessels to less than 300 if the present program of 12 ships per year continues.

In other words, it seems obvious that the legislative committees must have a function in formulating the fiscal programs in shipbuilding in the immediate future if we are to survive against the oncoming Soviet threat and if we are to meet our essential national needs.

We applaud this subcommittee's efforts to enact legislation to require authorization of certain merchant marine appropriations and sincerely hope Senate bill 340, as a result of your hearings, will be promptly enacted.

Thank you, Mr. Chairman.

Senator BREWSTER. Thank you very much, Mr. Hood.

The previous witness, Mr. Earl Clark, said that a construction program of 13 ships per year evaded the purposes of the act of 1936 and was a mere pittance. Would you concur in such a statement?

Mr. HOOD. I would.

Senator BREWSTER. How many ships per year would you think would be necessary to carry out the intent of the act of 1936?

Mr. HOOD. It is rather difficult to specify an exact figure, Mr. Chairman, but I will say this: The answer lies within the range of 30 to 50 ships per year.

Because of the pace of technology, ships are not now necessarily replaced on a 1-for-1 basis, and this factor would of course have a bearing on the answer.

Senator BREWSTER. Would the shipbuilders of America be capable of constructing ships at the rate of 30 to 50 a year under a Government program?

Mr. HOOD. Our surveys, verified by an independent accounting firm, indicate that we can build up to 50 ships per year.

As a matter of fact, if there were an assurance of a continuing program, we could probably exceed that number and meet any reasonable program.

Senator BREWSTER. The Secretary of Transportation, Mr. Boyd, has testified that if orders in the range of 30 to 50 ships per year were placed with U.S. shipyards, that you would drive the cost per ship substantially upwards, and therefore the program would become more costly and we would see rather abrupt or drastic inflation in the ship-building industry.

Would you comment on this position?

Mr. HOOD. Mr. Chairman, in 1953 we delivered 45 ships and still had an excess of capacity. I do not believe that a carefully phased, orderly program will result in an overstimulation of capacity nor an inflation in prices.

Senator BREWSTER. Is it not possible, sir, if you have a steady and guaranteed demand in increased numbers, that your cost per unit could very well go down?

Mr. HOOD. A stability in operation with a continuity of orders in increasing volume, yes, will lead to all sorts of production economies.

Senator BREWSTER. Secretary McNamara, in arguing for the fast development logistic ships, argued that it would be cheaper to the Government to mass produce these ships in semiautomated new yards.

Wouldn't the same argument be applicable to the construction of bulk carriers and liners?

Mr. HOOD. The total package concept, under which the FDL program was predicated, involves series production of standardized ships, and this is something that we as shipbuilders have long been advocating as a basis for reducing the cost of U.S. shipbuilding.

If there were any differences of opinion, Mr. Chairman, in the ship-building industry with respect to the FDL project, it was over whether or not an entirely new shipyard was needed to do the job.

Senator BREWSTER. Let me note that the possible cost of the FDL program was \$1 billion, and when request was made for it, there was no worry about inflation there in the cost of the FDL's.

Do you see any reason—and I recognize your position here, and I ask you to attempt to be objective—why it is necessary to contract for any ships paid for by the U.S. taxpayers in foreign shipyards?

Mr. HOOD. None. That is at the root of our opposition to the present foreign building proposal. We believe it is not unreasonable to expect that ships whose operations are to be subsidized by the taxpayers should be built in the United States.

To tie this question to one of your earlier questions, Mr. Chairman, I would suggest that if there is to be any inflation in prices, it would occur on the other end in the event of foreign building.

Senator BREWSTER. A shipyard is perhaps as much as anything an assembly yard.

Mr. HOOD. Correct.

Senator BREWSTER. What percentage of the cost of the ship would you say is actually involved in the assembly in the yard and what percentage of the cost should be properly attributed to the raw materials and materials that you purchase or subcontract for outside of the yard in the general economy of the community?

Mr. HOOD. This is a good point, Mr. Chairman. Actually, on the liner-type vessels, which are being constructed now under the Marad program, about 55 percent of the total cost of the vessel is represented in the subcost of materials and equipment.

In the case of tankers, the ratio is about 60 percent materials and components to 40 percent labor.

In other words, for every ship that is built abroad, it is evident that many domestic industries and activities spread throughout the entire country would also suffer a loss of business.

Senator BREWSTER. So it would be proper to conclude that a ship construction subsidy program benefits the general economy approximately in equal degree as it benefits the shipyards?

Mr. HOOD. It goes beyond the shipyard to a great extent, yes, sir—to every State in the Union, one job in the shipyard creates another job in a supporting industry, and a dollar of direct activity in shipbuilding creates 2 additional dollars of indirect activity in the economy.

Senator BREWSTER. Do you have any estimate of the percentage of the construction subsidy money that is returned to the Government by way of taxation?

Mr. HOOD. A study by Dr. Charles O. Meiburg, of the University of Virginia, several years ago applied the multiplier effect theory to construction subsidy contracts and demonstrated that by reason of the flow of money throughout the economy, the Government receives a yield of 99 percent on the original construction subsidy in the form of taxes.

This is unique, Mr. Chairman, because, unlike most other subsidies, the construction subsidy requires a matching dollar from the shipping operator.

Thus, the thesis that Mr. Meiburg was presenting would not be applicable to all other types of subsidies in the federal system.

Senator BREWSTER. If we take into account, then, the loss of revenue through taxation, the loss of jobs, the loss of demand for raw materials, and the loss of U.S. shipbuilding capacity, and the other factors, does the United States really save any money at all by building abroad?

Mr. HOOD. I would include an additional factor—the balance of international payments.

And my answer to your question would be “No.”

Senator BREWSTER. Previous witnesses have recommended a change in S. 340 to make it conform to the House measure with reference to fiscal year limitations. Would you comment on that?

Mr. HOOD. We would hope, Mr. Chairman, that the subcommittee would give consideration to the point expressed by Mr. Davis this morning relative to the particular language in the House-passed measure.

As he properly emphasizes, a ship construction contract extends most frequently beyond a single fiscal year, and payments would be necessary over an extended period of time.

Under the present procedure, there have been additional instances—wherein the money not utilized in a specific fiscal year has been carried over into the next fiscal year and has enabled additional ship construction contracts.

Senator BREWSTER. Now, two other subjects.

Do you have any difficulties with the present tripartite arrangement of the Government, the operators, and the yards all being involved in the payment of the construction subsidy? Or is there any validity to the suggestion that the construction subsidy should go directly to the yards?

Mr. Hood. Well, two points here, Mr. Chairman. First of all, we have agreed to the direct shipyard subsidy system in principle. Over the past 2 years, in discussions with the shipping operators, we as shipbuilders and they as shipowners have been unable to come up with any specific formula to carry out this system which could be presented to the Government.

We think the objective is desirable so long as it would get away from the tripartite sort of arrangement you mentioned.

In other words, give the shipbuilder and the shipowner more flexibility in the negotiation of their contract and less governmental supervision, dictation, and redtape.

Senator BREWSTER. If the shipbuilding industry has a guaranteed Government program, will the yards be able to modernize through private capital, or would there be some validity to the suggestion that either insured or low-cost Government loans for modernization be available?

Mr. Hood. There has been a considerable amount of modernization of facilities in our yards over the last decade, most of which has been financed through private capital. Should there be a continuing merchant ship construction program, there would be even more.

With regard to the possibility or desirability of low-cost loans for capital improvement in shipyards, this is the regular procedure in most of the leading shipbuilding nations of the world.

In fact, it is one of the elements which contributes to Japan's supremacy as the world's leading shipbuilder.

Senator BREWSTER. Therefore, this is a subject that the Congress might well look into?

Mr. Hood. In the area of forms of indirect aids to the maritime effort, yes.

Senator BREWSTER. It is certainly true that the great maritime nations of the world other than the United States have heavy government participation in their merchant marine at every level.

Mr. Hood. Yes.

I believe we have submitted to the subcommittee a report indicating the tax, credit, and financing procedures which are followed in the major maritime countries.

Senator BREWSTER. Thank you very much, Mr. Hood.

Mr. Hood. Thank you, Mr. Chairman.

Senator BREWSTER. That concludes the hearings on S. 340, and the subcommittee stands adjourned.

(Whereupon, at 11:27 a.m., the subcommittee adjourned, subject to the call of the chairman.)