

KANSAS STATE UNIVERSITY LIBRARIES

9014
C 73/2
986666

Y4
. C 73/2

90-66 MERCHANT MARINE APPROPRIATIONS AUTHORIZATION

GOVERNMENT

Storage

KSU LIBRARIES

✓

11900 502034

006174

HEARINGS BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES OF THE COMMITTEE ON COMMERCE UNITED STATES SENATE NINETIETH CONGRESS

SECOND SESSION

ON

S. 3016

TO AUTHORIZE APPROPRIATIONS FOR CERTAIN MARITIME
PROGRAMS OF THE DEPARTMENT OF COMMERCE

APRIL 9 AND 10, 1968

Serial No. 90-66

Printed for the use of the Committee on Commerce



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1968

93-405

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
COMMITTEE ON COMMERCE

WARREN G. MAGNUSON, Washington, *Chairman*

JOHN O. PASTORE, Rhode Island
A. S. MIKE MONRONEY, Oklahoma
FRANK J. LAUSCHE, Ohio
E. L. BARTLETT, Alaska
VANCE HARTKE, Indiana
PHILIP A. HART, Michigan
HOWARD W. CANNON, Nevada
DANIEL B. BREWSTER, Maryland
RUSSELL B. LONG, Louisiana
FRANK E. MOSS, Utah
ERNEST F. HOLLINGS, South Carolina

NORRIS COTTON, New Hampshire
THRUSTON B. MORTON, Kentucky
HUGH SCOTT, Pennsylvania
WINSTON L. PROUTY, Vermont
JAMES B. PEARSON, Kansas
ROBERT P. GRIFFIN, Michigan

FREDERICK J. LORDAN, *Staff Director*
JAMES J. BARRY, *Assistant Staff Director*
MICHAEL PERTSCHUK, *General Counsel*
JOHN N. NASSIKAS, *Assistant General Counsel*
STANLEY H. BARER, *Staff Counsel*

SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES

E. L. BARTLETT, Alaska, *Chairman*

WARREN G. MAGNUSON, Washington
JOHN O. PASTORE, Rhode Island
PHILIP A. HART, Michigan
DANIEL B. BREWSTER, Maryland
RUSSELL B. LONG, Louisiana
ERNEST F. HOLLINGS, South Carolina

ROBERT P. GRIFFIN, Michigan
WINSTON L. PROUTY, Vermont
NORRIS COTTON, New Hampshire

(II)



CONTENTS

	Page
Opening statement by the chairman.....	1
Text of bill, S. 3016.....	1
Agency comments:	
Comptroller General of the United States.....	2
Federal Maritime Commission.....	2
Department of the Navy.....	2
General Counsel of the Treasury.....	3

CHRONOLOGICAL LIST OF WITNESSES

APRIL 9, 1968

J. W. Gulick, Acting Maritime Administrator, Maritime Administration, Department of Commerce, Washington, D.C.; accompanied by Carl Davis, General Counsel, Maritime Administration, and William Heneghan, Budget Officer, Maritime Administration; also Lawrence E. Imhoff, Deputy Assistant Secretary for Administration, Department of Commerce, Washington, D.C.; accompanied by Thomas O'Brien, Office of Budget and Finance, Department of Commerce, and Pedro Vazquez, Deputy General Counsel, Department of Commerce.....	3
---	---

APRIL 10, 1968

J. W. Gulick, Acting Maritime Administrator, Maritime Administration, Department of Commerce, Washington, D.C.; accompanied by Carl Davis, General Counsel, Maritime Administration, and William Heneghan, Budget Officer, Maritime Administration; Also Lawrence E. Imhoff, Deputy Assistant Secretary for Administration, Department of Commerce, Washington, D.C.....	37
(Continuation).....	59
Phillip S. Hughes, Deputy Director of the Bureau of the Budget.....	47

ADDITIONAL INFORMATION

Bureau of the Budget, Executive Office of the President, letter to Senator Bartlett, April 17, 1968.....	58
Construction and operating contract provisions.....	33
Department of Commerce, Maritime Administration letter to Senator Bartlett, April 30, 1968.....	27
Maritime Administration research and development program, accomplishments of.....	44

MERCHANT MARINE APPROPRIATIONS AUTHORIZATION

TUESDAY, APRIL 9, 1968

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met at 10:05 a.m., in room 5110, New Senate Office Building, the Honorable E. L. Bartlett presiding.
Senator BARTLETT. The committee will be in order.

OPENING STATEMENT BY THE CHAIRMAN

Today we initiate hearings on S. 3016, a bill to authorize appropriations for certain maritime programs of the Department of Commerce.

S. 3016 is the first bill introduced pursuant to Public Law 90-81, which requires that after December 31, 1967, "only such sums as the Congress may specifically authorize by law may be appropriated for the use of the Maritime Administration" for various categories of activity. Thus we begin a process which we hope will be of substantial benefit in our efforts to enhance the maritime strength of the United States and assure that Federal expenditures on behalf of the merchant marine are adequate for full implementation of a maritime policy committed to creating a modern and efficient U.S.-flag fleet.

However, initial examination of the pending request bill indicates some lack of appreciation within the administration as to the desirability of having a modern and efficient U.S.-flag fleet. Distressing as this is, it surely is no longer a surprise. A copy of the bill and agency comments will be inserted at this point.

[S. 3016, 90th Cong., second sess.]

A BILL To authorize appropriations for certain maritime programs of the Department of Commerce

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That funds are hereby authorized to be appropriated without fiscal year limitation as the appropriation Act may provide for the use of the Department of Commerce, for the fiscal year 1969, as follows:

(a) acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, \$119,800,000;

(b) payment of obligations incurred for operating-differential subsidy, \$206,000,000;

(c) expenses necessary for research and development activities (including reimbursement of the vessel operations revolving fund for losses resulting from expenses of experimental ship operations), \$6,700,000;

(d) reserve fleet expenses, \$5,279,000;

(e) maritime training at the Merchant Marine Academy at Kings Point, New York, \$5,177,000; and

(f) financial assistance to State marine schools, \$1,900,000.

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

FEDERAL MARITIME COMMISSION,
OFFICE OF THE CHAIRMAN,
February 28, 1968.

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

DEAR MR. CHAIRMAN: This is in reply to your request of February 26, 1968, for the views of the Federal Maritime Commission with respect to S. 3016, a bill "to authorize appropriations for certain maritime programs of the Department of Commerce," and S. 3017, a bill "to change the provision with respect to the maximum rate of interest permitted on loans and mortgages insured under title XI of the Merchant Marine Act, 1936."

Inasmuch as the bills do not affect the responsibilities or jurisdiction of the Commission, we express no views as to their enactment.

The Bureau of the Budget has advised that there would be no objection to the submission of this letter from the standpoint of the Administration's program.

Sincerely yours,

JOHN HARLEE,
Rear Admiral, U.S. Navy (Retired), Chairman.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., March 5, 1968.

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

DEAR MR. CHAIRMAN: Your letter of February 26, 1968, requests our comments on S. 3016, a bill to authorize appropriations for certain maritime programs of the Department of Commerce.

We have no special information or knowledge that would assist in the consideration of S. 3016, and therefore have no comments to offer.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

DEPARTMENT OF THE NAVY,
OFFICE OF LEGISLATIVE AFFAIRS,
Washington, D.C., March 5, 1968.

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

MY DEAR MR. CHAIRMAN: Your request for comment on S. 3016, a bill "To authorize appropriations for certain maritime programs of the Department of Commerce," 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.

This bill would authorize appropriations for the use of the Department of Commerce for fiscal year 1969 for ship construction and operating differential subsidies, research and development activities, reserve fleet, Kings Point and State marine schools.

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. 3016 for the consideration of the Committee.

For the Secretary of the Navy.

Sincerely yours,

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

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., April 3, 1968.

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

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 3016, "To authorize appropriations for certain maritime programs of the Department of Commerce."

The bill would authorize to be appropriated specific amounts for certain maritime activities of the Department of Commerce. It incorporates legislation proposed by the Secretary of Commerce in view of the requirements of Public Law 90-81, approved September 5, 1967.

The Department has no objection to the proposed legislation.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

FRED B. SMITH,
General Counsel.

Senator BARTLETT. Now, Mr. Gulick, will you please identify those at the witness table with you, for the sake of the record?

STATEMENT OF J. W. GULICK, ACTING MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE, WASHINGTON, D.C.; ACCOMPANIED BY CARL DAVIS, GENERAL COUNSEL, MARITIME ADMINISTRATION; WILLIAM HENEGHAN, BUDGET OFFICER, MARITIME ADMINISTRATION; ALSO STATEMENT OF LAWRENCE E. IMHOFF, DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION, DEPARTMENT OF COMMERCE, WASHINGTON, D.C.; ACCOMPANIED BY THOMAS O'BRIEN, OFFICE OF BUDGET AND FINANCE; AND PEDRO VAZQUEZ, DEPUTY GENERAL COUNSEL, DEPARTMENT OF COMMERCE

Mr. GULICK. Thank you, Mr. Chairman.

On my right, I am accompanied by Mr. Carl Davis, General Counsel of the Maritime Administration.

On my left, Mr. William Heneghan, the Chief of our Budget Office.

Senator BARTLETT. And in reserve?

Mr. GULICK. In reserve, let's see, we have Mr. Imhoff, the Deputy Assistant Secretary.

Senator BARTLETT. For administration.

Mr. GULICK. For administration.

Mr. Tom O'Brien, one of his assistants, and I don't have his title.

Mr. Pedro Vazquez, Deputy General Counsel of the Department.

Senator BARTLETT. Very well.

Do you have a prepared statement, Mr. Gulick?

Mr. GULICK. I do, Mr. Chairman.

Senator BARTLETT. Would you care to present it? At your pleasure, Mr. Gulick.

Mr. GULICK. Thank you, sir.

Mr. Chairman, I appreciate the opportunity to appear before your committee in support of S. 3016, a bill to authorize appropriations for certain maritime programs of the Department of Commerce.

Section 209 of the Merchant Marine Act, 1936, as amended by Public Law 90-81, provides that after December 31, 1967, only such sums as Congress may specifically authorize by law 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.

S. 3016 would authorize appropriations without fiscal-year limitation as the appropriation act may provide, in specific amounts for the foregoing purposes—except for the vessel operations revolving fund—for the fiscal year 1969. No authorization for appropriations to the vessel operations revolving fund is being sought because with respect to the operation of general agency ships the fund is reimbursed by the Military Sea Transportation Service. With respect to amounts paid from the fund for the operation of the *Savannah*, we propose to reimburse the fund from our research and development appropriation.

The total that would be authorized by S. 3016 is \$344,856,000. The amount appropriated in fiscal year 1968 for these purposes was \$364,410,000. The net decrease of \$19,554,000 stems from reductions in the amounts requested for ship construction, research and development, and reserve fleet expenses. The reduction in these amounts is partially offset by increases requested in amounts for operating-differential subsidy, the Merchant Marine Academy at Kings Point, and State marine schools.

I would now like to discuss each of the authorizations contained in the bill:

(a) acquisition, construction, or reconstruction of vessels and construction-differential subsidy and cost of national defense features incident to the construction, reconstruction, or reconditioning of ships, \$119,800,000;

The total authorization of \$119,800,000 is \$23,200,000 below the \$143 million appropriated for fiscal 1968.

The unobligated balance carried over into fiscal 1968 from fiscal 1967 was \$134,970,000. This, plus the 1968 appropriation of \$143 million, made \$277,970,000 available for obligation in fiscal year 1968. Thus far in fiscal year 1968, we have obligated \$120 million. This provided for 11 LASH ships, five for Prudential and six for Pacific Far East Line.

The remainder of funds available to us under the fiscal 1968 obligation ceiling amounts to \$54,670,000, which would probably finance construction-differential subsidy for an additional four ships. We in-

tend to award a contract for one ship during fiscal 1968 for United States Lines. This ship has already been bid and completes a six container-ship group. With respect to the remaining three ships, however, it may be more practical to combine the contracting for these ships with some of the ships contemplated for fiscal 1969 so as to gain the benefits of cost reduction through serial construction.

Based on an obligation of \$174,670,000 in 1968, the 1969 budget request reflects a carryover into 1969 of \$103,300,000. This, plus the requested authorization for 1969 of \$119,800,000, will make \$223,100,000 available in 1969. Of this amount, however, we propose to obligate \$121,500,000 during fiscal 1969. On this basis we will carry over into fiscal year 1970 \$101,600,000 of unobligated funds. This is in line with the President's desire to curb inflationary trends. In his budget message to Congress, the President recommended "a temporary reduction in certain construction programs, not because they have outlived their usefulness, but because deferral of this construction is appropriate in a period when we must relieve inflationary pressures by reducing the deficit." While maritime construction subsidies fall in this category, it is not intended that the character of the program be substantially altered and, in addition, to the extent that inflationary pressures subside, we anticipate that consideration will be given to obligating these funds in fiscal 1969.

The total authorization of \$119,800,000 for ship construction for fiscal 1969 comprises three activity requests: construction-differential subsidy contracts for new ships—\$107,955,000; acquisition of replaced ships—\$8,695,000, including \$420,000 for reserve fleet expenses; and \$3,150,000 for administrative expenses.

CONSTRUCTION-DIFFERENTIAL SUBSIDY (\$107,955,000)

This authorization would provide for the construction of 10 new replacement vessels which, based on present trends, will probably be composed of container ships and standard cargo carriers, predominantly favoring the former category in view of the growing containerization movement. The growing trend in the carriage of container and containerized shipments by both the United States and foreign operators reflects the profitability of constructing container ships. Faced with the decision to commit substantial resources to the construction of replacement ships, U.S. operators must evaluate this trend in the context of the profitability of their operations over a 20-year period.

If the operators' evaluations give definite indications that greater profit capability, with the accompanying capacity for reduction of operating-differential subsidy payments, and increased productivity to meet the challenge of foreign operators, lie in the construction of more costly and, therefore, fewer ships in total than anticipated in the budget, consideration would be given to that alternative.

Foreign operators are becoming increasingly committed to the use of container ships. Of a total of 98 container ships which were under construction on June 30, 1967, only 31, about one-third, were for U.S. operators. It is therefore anticipated that American operators' main interest will be in container ships, which are currently seen as the most effective means of meeting the competitive challenge of foreign operators. The use of container ships on a trade route provides

an operator with significant savings in port time and hence with improved productivity and higher revenues.

The numbers and ranges of items that can be carried in containers in the future will continue to increase. Of the 29.3 million tons of exports carried on liner ships in 1966, it is estimated that approximately two-thirds, or 19.4 million tons, is containerizable. In some trading areas—for example, the North Atlantic—it is estimated that 75 percent of the exports are containerizable. The cost advantages to be derived from the use of container ships, combined with the potential market and growing foreign competition, have convinced many operators of the economic benefit to be derived from replacing their older vessels with new, highly productive container ships.

However, a review of the list of subsidized operators who will have ships delivered in 1969 indicates that 14 ships of six operators will be traded in during that year. This list includes C-1, C-2, C-3, and Victory vessels of these operators which are due, or overdue, for replacement—\$8,275,000 is included for the purchase of the 14 ships to be traded in and \$420,000 more being provided for essential expenses associated with placing these vessels in the national defense reserve fleet.

ADMINISTRATIVE EXPENSES (\$3,150,000)

This authorization would provide the same amount for administrative expenses as was appropriated for fiscal 1968, since these administrative expenses are related primarily to the number of ships already under construction, which will total approximately 45 in both 1968 and 1969.

(b) payment of obligations incurred for operating-differential subsidy, \$206,000,000;

Since a chief objective of the Merchant Marine Act, 1936, was to insure frequency and regularity of ocean shipping service between the U.S. and foreign markets, minimum and maximum sailings are established for each essential trade route, based on competitive conditions. Maximum sailings establish a ceiling to assure that any particular route will not be saturated with service disproportionate to demand conditions on that route. Minimum sailings assure that regular and frequent sailings are maintained and that American vessels are competitive on that trade route. In 1969, it is expected that 14 subsidized operators, using an average of 289 ships of the 314 subsidized ships, will make 1,754 sailings. It is also expected that the Department of Defense will charter the remaining subsidized ships to supply overseas bases, as is the case in this fiscal year.

This authorization is for the purpose of liquidating operating-differential subsidy accruals resulting from voyages undertaken by subsidized vessel operators in accordance with their contractual agreements. Under ideal conditions, assuming no delays in payments occasioned by such actions as requests for reconsideration of subsidy allowances, we would be required to finance liquidation requirements of \$216 million in 1969, based on \$149,100,000 for the liquidation of subsidy accruals resulting from subsidized operations in 1969, and \$66,900,000 for subsidy accruals remaining due and payable from prior years back to 1956. The requested appropriation of \$206 million, however, is \$10 million below this amount, since experience demon-

strates that the actual amount payable each year will be less by virtue of uncontrollable payment delays.

An evaluation of trends indicated that over the past 4 years uncontrollable factors, such as litigation, refusal by subsidized operators to accept recommended subsidy rates, failure to submit final operators' billings, and nonacceptance of final closing agreements, have generated a fairly consistent year-by-year lag in closing these past accounts. While we are able to decrease certain of these old accounts, other similar cases continue to develop each year due to like problems, thus offsetting our ability to completely catch up with this type of liquidation of accruals.

The authorization increase of \$6 million over the amount appropriated in 1968 for this purpose is required to cover net additional liquidation requirements in 1969 arising mainly from the built-in cumulative effect of prior-year wage agreements containing escalation features. In addition, changes in MSTs charter requirements and adjustments in prior-year obligations have increased the 1969 liquidation requirements. Offsetting decreases are expected to accrue as a result of the replacement of obsolete ships with newer more competitive ships.

MINIMUM AND MAXIMUM SAILINGS

The following table as of September 30, 1967, shows the minimum and maximum number of voyages authorized for current operators.

Unless you desire it, Mr. Chairman, I will not read the whole table, but merely note that the total of minimum sailings is 1,660; the total maximum is 2,035.

Senator BARTLETT. The complete table will be included in the record.

(The table referred to follows:)

Voyage authorizations by present operators (under contract)	Minimum sailings	Maximum sailings	Number of ships
American Export Isbrandtsen Lines, Inc.	221	291	43
American Mail Line Ltd.	36	46	9
American President Lines, Ltd.	103	120	25
Delta Steamship Lines, Inc.	67	79	13
Farrell Lines Inc.	76	99	21
Grace Line, Inc.	236	285	29
Gulf & South American Steamship Co., Inc.	30	36	5
Lykes Bros. Steamship Co., Inc.	218	272	59
Moore-McCormack Lines, Inc.	181	215	35
The Oceanic Steamship Co.	22	29	5
Pacific Far East Lines, Inc.	53	63	10
Prudential Lines, Inc.	28	35	5
States Steamship Co.	54	74	13
United States Lines, Inc.	335	391	42
Total	1,660	2,035	314

Mr. GULICK (reading):

(c) expenses necessary for research and development activities (including reimbursement of the Vessel Operations Revolving Fund for losses resulting from expenses of experimental ship operations), \$6,700,000;

The research and development projects of the Maritime Administration are designed to improve the competitive position of the American merchant marine while reducing the Government's share of the cost of its construction, operation, and maintenance. In carry-

ing out this program day-to-day efforts are made to work closely with industry groups who share in the benefits, and with related Government agencies, such as the Navy Department, in order to secure maximum results and utilization of successful research and development projects while avoiding overlapping costs. To this end, a Maritime Research and Development Advisory Committee, composed of representatives of labor, industry, and academic institutions is utilized to review proposed research and development areas and advise as to the programs and projects that will be of greatest assistance and have the greatest acceptance by the industry. We believe these joint efforts provide a means to convince the privately owned merchant marine sector of the advantages of research efforts in order that developments in ship construction and shipping operations and systems will have greater assurance of payoff.

During the past several years, we have had a directed research program aimed at reducing the cost of ship construction, ship operations, and port and related transportation system costs. Most of the efforts in this program were directed toward a more competitive merchant marine by adapting the existing technology in related industries. We believe that the directed research program has been quite successful, as demonstrated by such achievements as increased ship automation. However, since we have narrowed the gap between existing technology concepts and their adaptation to the merchant marine sector, we are proposing to direct more of our effort to the area of advanced concepts in ships and shipping system.

Consistent with the above, the 1969 authorization request of \$6,700,000 reflects a proportionately higher allocation of resources to the advanced concepts activity than in prior years. The overall decrease of \$2,875,000 below the previous year appropriation of \$9,575,000 is attributable to:

(1) The fact that no new funds are included for the surface effect ships program jointly funded since 1967 with the Navy Department; and

(2) A general reduction in the level of project funding within the directed research area.

The surface effect ship program is being reevaluated and consideration is being given to reprogramming a portion of the funds available in fiscal year 1968. There was an unobligated balance of \$4,204,000 of prior year funds brought into fiscal year 1968. These funds along with the 1968 appropriation of \$9,575,000 provide for a total program level of \$13,779,000 in 1968 including funds for the surface effect ship program. If the reevaluation justifies a reprogramming, it will necessitate a cutback in projects in the directed research area which were scheduled for hardware completion in 1969. It is anticipated that a joint Commerce-Navy determination to continue or terminate the surface effect ship program will be made very shortly which, if favorable, would establish the basis for a recommendation to the Bureau of the Budget on reprogramming of funds.

Some redirection of emphasis from the directed research to the advanced concepts activity will occur in 1969 as projects are completed and the adaptation of known technology to major areas of real payoff has been exhausted. Research in areas outside the present state of the art of existing technology is performed under the advanced concepts

activity. Consequently, in fiscal year 1969, the advanced research in the areas of ship structure simplification and ship construction will be performed under the advanced technology research project in the advanced concepts activity.

In addition to advanced technology research, the advanced concepts activity will deal with new research areas such as the development of submersible vehicles, catamaran-type ships, unitized feeder systems, competitive merchant ships, tug-barge systems and other advanced concepts.

In August 1968 the *Savannah* will have completed 3 years of experimental commercial operation under a bareboat charter with First Atomic Ship Transport, Inc., a subsidiary of American Export Isbrandtsen Line. The experimental commercial operation of the *Savannah* has been quite successful and experience has substantiated our estimates of her ability as a commercial vessel. Pending determination of NS *Savannah* long-term operating plans, this authorization request proposes a funding level of \$3,400,000.

This will provide for 9 months of continued experimental operation and allow 3 months of refueling. Additional operating experience will be gained which will be useful in planning followup nuclear ship development, and a trained manpower pool will be expanded and available for possible future construction of nuclear ships. Provision is made within the total request of \$6,700,000 for the payment of not to exceed \$931,000 for administrative expenses incurred by the Maritime Administration in the coordination and interest of research and development activities. This reflects an increase of \$31,000 over the 1968 limitation of \$900,000 to cover increased pay costs.

(d) reserve fleet expenses ;

This authorization is for the costs of preservation and maintenance of the National Defense Reserve Fleet which as of December 31, 1967, includes a total of 1,128 ships consisting of the following: 274 dry cargo vessels, 67 miscellaneous-type merchant ships, 283 naval auxiliaries, 29 special program types, and 475 scrap candidates. A further breakdown of these numbers and an estimate of their remaining availability for emergency service are attached to this statement. In addition to the expenses involved in operations at six active fleet sites (Hudson River, James River, Mobile Suisun Bay, and Olympia) and two sites in the phaseout process (Wilmington, N.C., and Astoria, Oreg.), the estimate provides for the services of safety officers in each coast district plus minimum supervisory personnel in the Washington headquarters.

No backlog of preservation work is expected to exist at the end of fiscal 1968 on the 634 priority ships, and fiscal year 1969 should begin with only the work normally due in that year on 409 ships.

Related to the 475 ships being held for disposal as scrap, which do not involve costs other than for security patrol, the normal disposal rate is around 125 per year.

The Wilmington, N.C., and Astoria, Oreg., sites with one exception, contain only 23 and 14 scrap candidates, respectively. These involve a strictly custodial operation. Only one other ship is retained at Astoria: a C-4 which is awaiting delivery to a ship exchange applicant. It is anticipated that the remaining ships at these two sites will be disposed of at the end of calendar year 1968 and the sites completely phased out by the end of fiscal year 1969.

The authorization of \$5,279,000 for fiscal year 1969 is \$161,000 less than the amount appropriated for fiscal 1968. This amount will be sufficient to provide for the procurement of long-lead items which will be needed upon return of General Agency Agreement ships from Southeast Asia service sometime after 1970. These long-lead items include dehumidification units, generators, and transformers for electrical service buildup and miscellaneous items of equipment for conventional preservation work. Having these items on hand will enable complete preservation of the ships immediately upon return, instead of temporary layup at fleet site pending procurement of the needed equipment and materials, and incurring additional expense by returning them to shipyards for full preservation when items are received.

(e) maritime training at the Merchant Marine Academy at Kings Point, New York, \$5,177,000;

Section 216(b) of the Merchant Marine Act, 1936, Public Law 415, 84th Congress (46 U.S.C. 1126), established the Merchant Marine Academy at Kings Point, N.Y., as a permanent institution to provide a program for the training of officers for service in the merchant marine. A 4-year training course is provided, including 1 year of sea duty designed to qualify graduates for licenses as merchant marine officers. The Academy provides subsistence, quarters, tuition, uniform and textbooks allowances, and medical and dental care for the cadets. The objective is to graduate 200 deck and engine officers each year.

The size of the classes and the quality of the curriculum have been, and will continue to be, constantly reviewed and adjusted to present and future officers needs of the American merchant marine. The development and application of new marine techniques and concepts are constant considerations in directing this program toward meeting its goals and objectives. The increasing sophistication of marine technology on ships underscores the need for more highly skilled officers to satisfy the demand for replacement of older officers who will be lost through retirement. The authorization request of \$5,177,000 is an increase of \$557,000 over the amount appropriated in fiscal 1968.

This increase is primarily for—

- (a) additional instructional, maintenance, and administrative positions;
- (b) an increase in the level of programs for modernization of instructional facilities and repair of all facilities;
- (c) cadet inaugural parade travel expenses;
- (d) additional uniform and textbook allowances.

The fiscal year 1969 requirement for uniform and textbook allowances is \$332,00, an increase of \$66,000 over the 1968 funding request of \$266,000. This includes payment of \$475 for allowances to each cadet consistent with provisions contained in section 216(b) of the Merchant Marine Act, 1936, which provides in part:

* * * Cadets at the United States Merchant Marine Academy shall receive allowances for all required uniforms and textbooks as prescribed by rules and regulations under this act * * *.

In fiscal year 1966 the allowance was raised from \$300 to \$400 per cadet per year. A comprehensive audit performed at the Academy in July 1966, reflected that the costs to cadets for uniforms and textbooks averaged approximately \$462, a considerable excess over the present

\$400 allowance considering the total cost relating to the total number of cadets covered.

The increase to \$475 per cadet, totaling \$332,000 annually should be sufficient to meet the present costs (including normal cost increases by 1969) for all prescribed uniforms and textbooks, thus obviating the need for out-of-pocket expenditures by the cadets in purchasing these required items. The increase also takes into account the estimated increase in average cadet attendance by 1969. The increase of \$66,000 is calculated as follows:

	Estimated average attendance	Allowance per cadet	Total requirement
1968.....	664	\$400	\$266,000
1969.....	700	475	1 332,000
Increase for 1969.....			66,000

¹ Rounded.

The maintenance and repair activity at the Merchant Marine Academy consists of necessary maintenance, repair, and replacement projects keyed to meeting our responsibility for the proper safeguarding and maintenance of the Government's properties at the Academy valued in excess of \$14 million. The fiscal year 1969 requirement for this continuing program is \$392,000, which represents an increase of \$69,000 over the \$323,000 requested in 1968.

The additional fund availability will support such necessary projects as: painting or building; installation of improved lighting; repairs to roofs; replacement of piping and steam lines; installation of fire doors and sprinkler system; repairs to floating equipment; repair of the *Kings Pointer* (training vessel); and other similar needs. As the physical facilities at the Academy advance in age, more intensive and costly major repairs and replacement have been necessitated, thus requiring increased fund availability to insure proper maintenance.

Three passenger vehicles and one truck, which will be at least 7 years of age by 1969, are going to be replaced.

The waterfront repair program is being maintained at the same level as in 1968. The funds will be used to continue preventive maintenance of the Academy's waterfront property.

Modernization of instructional facilities is a continuing activity. It is geared only to the most necessary modernization and replacement of obsolete instructional equipment and facilities at the Academy. The authorization request includes \$248,000 for this activity which is an increase of \$67,000 over the amount for 1968.

The Advisory Board, Congressional Board of Visitors, and Middle States Association of Colleges and Universities have upon various occasions expressed their beliefs that sufficient funds should be provided to modernize instructional facilities to keep abreast of the changing technology in the maritime field. The continued improvement and modernization of the many instructional facilities of the Academy will insure that the highest degree of academic and technical proficiency is attained by the cadets in training. In recent years rapid technological advancements in the shipping industry have outdated much of the instructional equipment presently used in cadet training. While the

existing equipment is serviceable and has been kept in good condition, its use as training media is severely limited in terms of the sophisticated equipment in service on our newer merchant vessels. Cadets must have the opportunity to become familiar with these newer types of equipment with which they will be working after graduation.

The increase for 1969 is required to permit the following representative instructional facility improvements:

(1) Purchase and installation of major items of equipment in steam, nuclear, analog computer, thermodynamic, electrical, and other technical laboratories;

(2) Modernization of electronic marine and oceanographic equipment;

(3) Purchase of lifesaving equipment, math and science equipment, quantitative tables, manuals, textbooks, charts, and seamanship tools and equipment;

(4) Other similar items necessary to maintain the effectiveness of the instructional program in light of rapidly changing technology.

The continued improvement of the instructional facilities at the Academy is considered to be most important in insuring the continued high level of instruction that has come to be a standard in cadet training programs.

(f) Financial assistance to State marine schools, \$1,900,000.

The Maritime Academy Act of 1958 provides for assistance in the training of cadets at State marine schools for service as officers in the U.S. merchant marine. The program is aimed at a level of graduating approximately 400 deck and engineering officers each year.

The five participating State schools, Maine, Massachusetts, New York, Texas, and California, prepare officers for our merchant fleet requirements. Additionally, they provide a nucleus of highly trained officers to man our merchant ships in times of national emergency.

The 1969 authorization request of \$1,900,000 provides \$1,275,000 for grants of \$75,000 to each of the participating State schools and \$900,000 for allowances to an average of 1,500 cadets for uniforms, textbooks, and subsistence; and \$625,000 for maintenance and repair of training ships loaned to each of the schools. The requested increase of \$125,000 over the 1968 appropriation of \$1,775,000 will cover additional repair needs for aging training vessels which cannot be safely postponed.

Under the provisions of the Maritime Academy Act of 1958, the Secretary of Commerce has contract authority to pay allowances for uniforms, textbooks, and subsistence of cadets up to \$600 per annum per cadet. No increase over 1968 is reflected in this authorization request for this purpose. There is no increase in the grants of \$75,000 to each school in 1969.

I would like to close by saying that we in the Department of Commerce are very much interested in having a good and a strong U.S. merchant marine, and we know this committee has this same interest. We very much desire to administer our present responsibilities in an effective and efficient manner, in accordance with the laws enacted by the Congress.

Thank you, Mr. Chairman.

Senator BARTLETT. I want to thank you, Mr. Gulick. You have done a very considerable amount of reading. We will recess for a minute or two so you can catch your breath.

Mr. GULICK. Thank you, sir.

(Whereupon, a short recess was taken.)

Senator BARTLETT. Mr. Imhoff, do you desire to join us?

Mr. IMHOFF. Yes, sir.

Mr. GULICK. Mr. Chairman, may I say that the attachment here which deals with the costs of preservation and maintenance of the National Defense Research Fleet is a part of the statement, and I would respectfully request that we include this in the record.

Senator BARTLETT. We wouldn't think of doing otherwise. It is a very frightening statement, and we will ask some questions about that table.

Mr. GULICK. Thank you, sir.

(The attachment above described follows:)

ATTACHMENT

This authorization is for the costs of preservation and maintenance of the National Defense Reserve Fleet which, as of December 31, 1967, included 1,128 ships as follows:

Dry cargo ships:

Victory ships (available to 1975)-----	19
Victory AP-2 troopers (available to 1975)-----	18
C1-A and C1-B (available to 1969)-----	31
C1-M-AV1 (available to 1971)-----	37
Liberty ships (available to 1971)-----	187

Subtotal ----- 292

Victory AP-5 troopships:

Marad retention (available to 1974)-----	21
Navy retention (available to 1977)-----	83

Subtotal ----- 104

Naval auxiliaries: (other than Victory AP-5's) (available to 1969; then drop at rate of 25 per year)----- 200

Marad miscellaneous ships:

Tugs (available to 1971)-----	11
Tankers (available to 1971)-----	8
All other (available to 1971)-----	9

Subtotal ----- 28

Special program:

Ship exchange candidates-----	14
Reduced operating status and/or reserve status ships-----	12
Navy salvage ships-----	2
GAA potential scrap candidate-----	1

Subtotal ----- 29

Scrap ships----- 475

Grand total----- 1,128

Senator BARTLETT. Is this statement, Mr. Gulick, identical to that which you presented to the House committee?

Mr. GULICK. Almost identical in every respect; yes, sir.

Senator BARTLETT. Do you believe, Mr. Gulick, that the bill before us represents a reasonable, appropriate and proper effort to fulfill the mandate of the 1936 Merchant Marine Act of maintaining a U.S.-flag merchant marine adequate for national defense and sufficient to carry a substantial portion of our waterborne commerce?

Mr. GULICK. Mr. Chairman, this request is not as much as would be normally requested to carry out the Merchant Marine Act of 1936. It is a holding action budget deliberately we used in view of the obvious need as foreseen by the President in his budget message to curb inflationary funds and to harden our financial position.

Senator BARTLETT. I interpret your answer to my question, then, abbreviated to mean no.

Mr. GULICK. I dislike to come down to a no without a caveat, but I must admit that no is the answer.

I would respectfully request that the caveat be included.

Senator BARTLETT. In the several categories, are these the amounts of money the Maritime Administration requested?

Mr. GULICK. Yes, sir.

Oh, I am sorry, sir. I misunderstood the question. These are not the amounts of money requested by the Maritime Administration originally.

Senator BARTLETT. Your sails, then, were trimmed, the sails of the Maritime Administration?

Mr. GULICK. Yes, sir.

Senator BARTLETT. Was the greatest trimming done at the Budget Office of the Department of Commerce or at the Bureau of the Budget?

Mr. GULICK. Budget Office of the Department of Commerce, acting from my own personal knowledge and discussions with the Secretary of Commerce upon instructions he had received.

Senator BARTLETT. Where was the greatest slash—at the departmental level?

Mr. GULICK. At the departmental level; yes, sir.

Senator BARTLETT. Well, we will go into that a bit more later. Mr. Imhoff may want to make some comment by and by.

Mr. IMHOFF. That is true, Mr. Chairman. The actual numbers are as follows:

The request to the Secretary by the Administrator was in the total amount of \$629,414,000. This was reduced by the Secretary to the figure of \$379,109,000. And that was further reduced by the Bureau of the Budget to \$355,852,000.

Within the very tight ceiling, the planning figure that we received from the Bureau of the Budget, it simply wasn't possible to include, on the basis of relative priorities, more than the amount that the Secretary allowed for the Maritime Administration.

Senator BARTLETT. Now, in subcategories within the budget, the amounts requested of Congress this year are greater than for the current fiscal year. And this committee, for example, had been under the impression, decreasingly so, I must admit, that the merchant marine should enjoy a very high priority within the budgetary framework in the interests of national defense, if for no other purpose. And was that taken into account, Mr. Imhoff, in the determination at the department level?

Mr. IMHOFF. Yes, Mr. Chairman, that along with many other factors were considered. It is a very difficult problem, of course, to allocate funds among our many bureaus and offices and activities. But each one of these requests is very carefully considered in the light of national requirements.

Senator BARTLETT. What is your personal view? Should the merchant marine have a high priority or not?

Mr. IMHOFF. I think it deserves a high priority, yes, Mr. Chairman, within the limits of funds that can be made available under existing conditions. I would have to qualify the statement that way.

Senator BARTLETT. Are we dependent to a greater degree than was first predicted upon the merchant marine to carry essential freight to Vietnam?

Mr. IMHOFF. Probably so. I think Mr. Gulick could probably provide a more informed answer on that. I would say, yes, though, that is true.

Senator BARTLETT. And as Acting Maritime Administrator, Mr. Gulick, are you satisfied that a budget consistent with the request in this bill will enable you to promote the U.S. merchant marine as that duty is imposed upon you by law?

Mr. GULICK. No, sir; for the reason that, as I indicated a few moments ago, this budget represents a holding action. On the other hand, while this is not sufficient to fully implement and improve our merchant marine capability, I, as I have said before, cannot argue with the decision of the President who has to view the national requirements as a whole and gives higher priority in certain very important areas such as the prosecution of the war effort in Vietnam.

Senator BARTLETT. It occurs to me just incidentally, perhaps, that this is a most powerful argument for an independent Maritime Administration because, then, at least the Administration would have opportunity to carry its request—the request in this case amounting to the figure you mentioned—to the Bureau of the Budget and not have to go to that Bureau with the huge sums cut within the Department. Do you care to comment on that?

Mr. GULICK. I have taken a rather pragmatic view of the independent status issue. In my experience in the Government, it has always occurred to me that those agencies who had a champion at the Cabinet table level got a better break on the monetary distribution side than those who stood alone. May I explain this?

Our budget process is, to put it most simply, a dividing up of a total money pie. The original concept of budgeting obviously means that there is a first flash of how much is going to be allocated to the larger areas of the Government. This leaves very little for the independent agencies unless their work is either so important at the total national level or they have a champion heading their agency such as was the case during World War II, for example, when the work of the U.S. Maritime Commission was so closely allied to the war effort, they got what they had to have.

I feel, very frankly, that the place of the merchant marine should be as the President has indicated, in close association with other transportation areas—rails, trucks, and air. And until this comes to pass, the maritime side is going to be on the outside.

Senator BARTLETT. Outside financially unless the Administration should come within a department?

Mr. GULICK. I do not intend, and I hope my remark is certainly not taken as being in any way a threat. I am talking here only about the difference between going in a consolidated transportation group or an independent status. I feel now that the Department of Commerce has done everything within their power to support us. I know the Secretary, the prior Secretary and the present Secretary, have both had a high interest in the merchant marine. And I may say that our cuts were performed only at the very last moment when there was no other way out.

Senator BARTLETT. How much, Mr. Imhoff, did you say that the Maritime Administration had requested for ship construction in 1969?

Mr. IMHOFF. For ship construction, Mr. Chairman, the request was in the amount of \$388,045,000, which would have covered 30 ships.

Senator BARTLETT. Well, Mr. Gulick, I used to make that argument, too, that you have just presented here that with a powerful Cabinet officer arguing the case, an agency would be much better off as to consideration of its needs. But I think this is a total demonstration to the contrary. You have already said that you believe that this is not enough money to do that for the U.S. merchant marine which needs to be done. Would you not have preferred not to be cut down from \$388 million to \$119,800,000 within the Department of Commerce, but, instead, to have had the opportunity in an independent status to argue your case directly only before one court, as it were—namely, the Bureau of the Budget? Is it not very possible that you might have fared much better there? Because, as I understand it, when you went to the Bureau of the Budget, you were not able to ask for sums in excess of those approved by the Department of Commerce.

Mr. GULICK. I can only give, of course, a personal observation on this. And that observation, very simply, is that all during the course of the consideration of this budget, the Department of Commerce has certain guidelines from the Bureau of the Budget. I assume that if we had been an independent agency, we would have received those same guidelines. And I assume that the result would have been identical.

Senator BARTLETT. Well, that is an assumption only, as you tell us, which may or may not be correct. I know these are difficult questions for you, Mr. Gulick. But, on the other hand, even our experiences of last year, those in the Congress interested in building up and modernizing and placing the U.S. merchant marine in a position where it ought to be had every reason to hope that this year there would be presented by the administration a bold new program looking toward the construction perhaps of 30 ships each year. And, now, I think you will have to agree that it is more than disconcerting to consider an authorization request emanating from the administration which will provide, not more, but fewer ships.

Do you agree with that?

Mr. GULICK. I certainly do, Mr. Chairman. As I said before, if I had my way, we would do much, much more. Unfortunately, I cannot argue with the President when he makes his decisions.

Senator BARTLETT. But the House of Representatives Merchant Marine and Fisheries Committee did not agree with the administration; did it?

Mr. GULICK. That is correct, sir.

Senator BARTLETT. What did the House do, by the way?

Mr. GULICK. The House increased the overall 1969 program level by \$225,405,000. In addition to recommending the obligation of \$103,300,000 carried over from fiscal year 1968, their report proposed an increase in the ship construction area of \$117,670,000, in the research and development area \$4.3 million, and for State marine schools an increase of \$135,000.

Senator BARTLETT. How many ships, in your judgment, given the present price levels, can be built with the amount of money you are asking for for fiscal 1969?

Mr. GULICK. Depending upon the sophistication and type of ship, eight to 10.

Senator BARTLETT. And how many might be built if the House committee's recommendations are followed and the appropriations are made?

Mr. GULICK. With the same qualification, 25 to 27.

Senator BARTLETT. Is eight to 10 enough?

Mr. GULICK. It certainly is no more, as I have indicated, than a holding action.

Senator BARTLETT. Will it hold or will it cause a decided slippage?

Mr. GULICK. It would hold, Mr. Chairman, from the point of view that new ships would thus even in small quantities come into the merchant fleet. But it would certainly not be a desired upgrading of the total fleet. Our age of ships grows each year. Eventually, these ships in the older categories will be out of business. It is for this reason that we are endeavoring to give serious consideration to every possible method of improving our ship construction capability and feeding in necessary ships into those areas where the age is extremely high.

Senator BARTLETT. You mentioned a few minutes ago the Bureau of the Budget issued guidelines that I assume, as you assumed on another matter earlier, could be construed as orders—guidelines as to the amounts within given categories that could be asked for. Was your request for \$388 million for ship construction for the fiscal year 1969 within that guideline?

Mr. GULICK. No, sir. Our request was based upon our own independent planning efforts, viewing the total merchant marine requirements, and our responsibilities as an individual agency under the Merchant Marine Act of 1936.

Senator BARTLETT. Was that guideline the law of the land, as it were, before you reached a conclusion upon this figure?

Mr. GULICK. Not to my knowledge, sir.

Senator BARTLETT. When did you first hear about it?

Mr. GULICK. After our presentation of our request to the Secretary in August of 1967.

Senator BARTLETT. You could have asked for \$3 billion, then, or any amount?

Mr. GULICK. Yes, sir.

Senator BARTLETT. And the \$388 million represented the best judgment of those within the Maritime Administration who had the duty and power to make the decision to arrive at?

Mr. GULICK. Yes.

Senator BARTLETT. How many applications, Mr. Gulick, are now pending before the Maritime Administration for construction differential subsidies?

Mr. GULICK. I will be glad to answer that in just a moment, Mr. Chairman, if I may.

Senator BARTLETT. If that is easier.

Mr. GULICK. If I may, I would like to split my answer, Mr. Chairman, into two parts, the first to deal with the contract requirements of subsidized operators who have certain requirements for replacement of their fleet. And these come out very clearly as follows:

In 1969 fiscal year, 34 ships are called for under the contracts as commitments by the operators for replacement, making total commitments through 1969, 221. Of that number, 166, including the recently awarded contract for 11 LASH ships, are either delivered or on order, leaving unfulfilled commitments of 55 ships yet to be taken care of through fiscal year 1969. Of these, we propose to consider awarding up to 12 ships out of the remaining 1968-69 contract commitments. This would still leave us 43 ships behind schedule through fiscal 1969.

Now, with respect to others who would like to come into the picture—

Senator BARTLETT. Let us just be sure. Does this mean those who have applied? Is that what you are going to say now?

Mr. GULICK. No, sir. Those who applied are considerably less than this number.

Senator BARTLETT. All right, you go ahead with those who would like to come into this picture, then.

Mr. GULICK. Those who would like to have ships at the moment would be a total of 22 including the 12 ships for which we are considering award. Broken down, this would be Lykes, three; Farrel, five; American President Lines, three. American Isbrandtsen is talking about some nuclear ships in addition to 10 container ships they would like. And U.S. Lines wants one more ship to fill out its six-ship container fleet. They have five of them under construction now.

We have applications—dealing now with the second part of the question—from unsubsidized operators. Matson Navigation Co. filed an application last September for two container ships for which they would like construction subsidy. From the bulk carriers or those subsidized operators who would like to get into the carriage of bulk commodities, we have from Hudson Waterways an application for two ships. And some of these have been long standing, too. Jackson Agents, two ships; Overseas Transportation, two ships; Penn Steamship, three ships; T. J. Stevenson, one ship; American Export, 10 ships; T.C. & C. Shipping Co., two ships; Marine Carriers, four ships; and American President Lines, four ships; for a total of 30 ships.

Senator BARTLETT. When was the construction-differential subsidy last granted to a nonsubsidized operator?

Mr. GULICK. It seems to me—I will be glad to check this for the record, Mr. Chairman—that the last CDS granted to an unsubsidized operator—that is, a nonsubsidy contract operator—was the case of the *Venore*, one of four ships in a contract awarded in 1945.

Verification disclosed that the last award of construction-differential subsidy to a nonsubsidized operator was granted to the United Fruit Steamship Corp. under construction-differential subsidy contract No. MCC-40656 dated October 15, 1945, for the S.S. *Morazan*. This

contract covered the construction of nine refrigerated ships which were delivered between March 1947 and July 1948.

Senator BARTLETT. What chance will such an operator as you have described have of obtaining approval of an application heretofore made or to be made in the future under the 1969 budget request?

Mr. GULICK. As proposed both by us and by the President in his message, Mr. Chairman, very little for the reason that there just isn't enough money.

Senator BARTLETT. You might as well save the paperwork, then.

Mr. GULICK. I am afraid this might be true, sir. I do not wish the record, however, to indicate that we have no interest in this because early this year, in order to firm up the plans over the next 5 years of the total maritime industry, we requested a report on 5-year planning. Initial analyses indicate, and these reports will not be completed and filed until sometime around the middle of this month, that both subsidized and unsubsidized operators, could use slightly over 220 ships.

Senator BARTLETT. Would that number in your opinion meet the needs of the merchant marine for updating for modernization?

Mr. GULICK. We feel that this number would definitely meet the needs. It may be possible that we could agree on less than this number, bearing in mind that this is just for a 5-year spread—and that we might come to some difference in the total number—which we propose to work out with the industry as their firmer plans come in. If we can come up with the concept of families of ships which could be constructed in quantity from the same general base, we feel that we can at one and the same time encourage the shipyards to exert their best efforts as they have indicated they would to build ships in quantity at considerably reduced prices. This, in turn, would offer to the individual steamship companies a ship at less, hopefully, than the present going prices, certainly for the individual customized ship contracts which we have seen in recent years.

We hope that out of this, we may be able to get a better ship for the individual operator.

Senator BARTLETT. Well, to an increasing extent, is it not true that this is being done now; that you are awarding more and more contracts for ships in families?

Mr. GULICK. Definitely. Yes, sir.

Senator BARTLETT. Mr. Barer has a question he wants to ask.

Mr. BARER. Mr. Gulick, you indicated that the vessel replacement program contemplated involved a commitment of some 221 vessels through fiscal 1969.

Mr. GULICK. Yes, sir.

Mr. BARER. And that after you have awarded an additional 12 ships, you will still be well over 40 ships behind. Is that correct?

Mr. GULICK. That is right.

Mr. BARER. What would be the situation through fiscal 1970? How many more ships are within the vessel replacement program that come into this picture in the following fiscal year?

Mr. GULICK. In addition to the 43 ships which we would be behind at the end of fiscal 1969, by 1970 we will be in a position where the contracts will call for 22 or 23 additional ships.

Does this give you the information you wanted, Mr. Barer?

Mr. BARER. As I understand, then, although you will be 43 ships behind at the end of fiscal 1969, the following year, it will be an additional 22 or 23.

Mr. GULICK. Right, sir.

Mr. BARER. Behind?

Mr. GULICK. That is correct, sir.

Mr. BARER. And that will put you 65 or 66 behind in another year?

Mr. GULICK. That is right.

Mr. BARER. And these are all vessels which you have contracted to provide construction subsidy for if the funds are available, is that correct?

Mr. GULICK. That is correct, sir.

Mr. BARER. That means, then, by the end of fiscal 1970 you must have enough funds for 65 vessels before any nonsubsidized operator has a chance or a prayer of getting construction subsidy, is that correct?

Mr. GULICK. Not quite. Let me put a little condition on this. This figure we have been using is on a 1-for-1 ship replacement. By working out the family of ships concepts to encourage serial construction and, most important of all, to end up with the most efficient competitive productive ship which we can obtain, it is not only possible, it is entirely probable that we will be able to provide one ship which, for example, could do the work of three C-2's today.

Mr. BARER. But nevertheless, you have got to build enough ships to replace 65 vessels—

Mr. GULICK. Correct.

Mr. BARER (continuing). Regardless of what the replacement ratio is.

Mr. GULICK. Correct. The capability of 65 vessels, at least.

Senator BARTLETT. Why, Mr. Gulick, is it that previously appropriated funds for ship construction have not yet been committed?

Mr. GULICK. We have a carryover of \$103.3 million which has been taken into account in the President's budget message as part of his methodology for reducing Government expenditures in this year in order to curb the inflationary trend and to harden up the U.S. dollar.

Senator BARTLETT. These funds were frozen?

Mr. GULICK. Yes, sir; virtually all—\$101.6 million.

Senator BARTLETT. Do you feel it would be an equitable and worthwhile policy to give priority to presently nonsubsidized operators in the granting of construction subsidy whenever there are funds available and not required for present utilization to fill contractual replacement obligations for subsidized operators?

Mr. GULICK. We certainly do feel that this is desirable and, in fact, essential if the unsubsidized portion of our fleet is to be upgraded. At the moment, it is in a rather hopeless situation due to present funding restrictions.

Senator BARTLETT. Let us say you had funds. Let us say agreement had been reached with a subsidized operator for one or more ships, but he was not ready with his plans, he was not quite ready to go ahead, there might be considerable lag. Would you believe it to be a wise policy, then, to divert that money for the nonsubsidized operator?

Mr. GULICK. On that basis alone, my answer would be "Yes." But we have gone one step beyond this in going out to industry and

requesting the 5-year planning. We had this very situation in mind. We wanted to know what companies felt they had to have what ships when. Now that we have this initial information, and it will be supplemented by more detailed plans of the companies, it would be our purpose to review the total requests and endeavor to come up with what we consider to be the best way to provide for the ships as requested by the various companies.

Obviously, if we do not have appropriated funds for this purpose, we will have to endeavor to acquire these ships in some other ways. And we are giving right now consideration to ways and means of accomplishing that.

Mr. BARER. Mr. Gulick, you mentioned earlier that there was some \$103 million, I believe, that has been appropriated for ship construction that is a carryover.

Mr. GULICK. Yes, sir.

Mr. BARER. That \$103 million was not frozen last year, was it? You could have spent it if there would have been an application ready for it to be expended, is that correct?

Mr. GULICK. Up to the time we were requested to hold off on expenditure; yes.

Mr. BARER. If you had this \$103 million and in spite of the many outstanding contractual replacement obligations, no one was ready to actually utilize the money, why did you not give it to a nonsubsidized application?

Mr. GULICK. I would not say, Mr. Barer, that no one was ready to use the money. If we had been able to expend this \$103.3 million in fiscal 1968 as appropriated, we would have fulfilled our combined 1967 and 1968 fiscal year construction program calling for originally 26 ships and now reduced by the withdrawal of one ship from this group to 25. As it is now, we in effect have slipped our construction program by 1 year.

Mr. BARER. How many vessels are now ready among the subsidized operators to be replaced right now that could actually utilize the money other than Lykes, I am aware of, is putting their ships out for bid, but who else is ready?

Mr. GULICK. These are the 12 ships which we will hopefully give contracts for in the remainder of this year and the next fiscal year. In addition to those, we have an indication of five to 10 ships for American Export Isbrandtsen for the next fiscal year, 1969, if we had the money for these. But the fact of the matter is that the 10 ships which we were planning for in 1969 will now be slipped over into fiscal year 1970.

Now, what other operators are ready, willing, and able at the moment to go into immediate construction, we cannot say, and we will not be able to say until we get their final planning papers in sometime during this month.

Mr. BARER. But as I understand your response to Senator Bartlett's earlier question, you are agreeable with the policy that in spite of outstanding contractual obligations by the subsidized operators, if you do have appropriate funds which you can spend and the subsidized operators are not yet ready to actually utilize the funds, you would try to give priority to the nonsubsidized applications for construction-differential subsidy; is that correct?

Mr. GULICK. We would definitely consider this. But at the moment——

Senator BARTLETT. Wait a minute, Mr. Gulick.

Mr. GULICK (continuing). We just do not have the funds.

Senator BARTLETT. Mr. Barer said, would you give priority. And your response was, "We would consider it."

Mr. GULICK. I do not think we could ignore the subsidized operator contract requirements.

Senator BARTLETT. But Mr. Barer's question was framed so that it was clearly understood that the subsidized operator was not ready.

Mr. GULICK. If the subsidized operator is not ready, then obviously we would certainly be interested in giving, to use your term, priority to the unsubsidized.

Senator BARTLETT. Well, let us get it narrowed down a bit. Would you give priority or would you not?

Mr. GULICK. Yes, sir.

Priority to me just means granting the request. And if we have no request from a subsidized operator, why, we would be highly interested in giving the unsubsidized operator priority, because the fact is that our unsubsidized fleet is in serious need of attention.

Mr. BARER. Mr. Gulick, you said if you did not have a request. The situation I am concerned about is where you have always got the request because you have this contractual obligation, but what I am talking about is where you have a request but the facts indicate the subsidized operator is not going to be actually utilizing the money for, say, another 12 months or 16 months or something. In other words, he has got his request in.

For example, as you told us, American Export Isbrandtsen has a request in to build 10 new ships. Now, as long as those requests are pending, is that going to wipe out all nonsubsidized applications?

Mr. GULICK. No, sir. By "request," we mean to designate those who are ready, willing, and able to move.

Senator BARTLETT. Now, I realize very well, indeed, Mr. Gulick, that you cannot give an official response to the question I am about to put to you because if you did, you would have to speak for the Administration.

Mr. GULICK. On your previous question I should add, Mr. Chairman, that I cannot, of course, speak personally for the Maritime Subsidy Board.

Senator BARTLETT. You just speak personally now for Jim Gulick.

What is your view concerning the amendments adopted by the House committee to which you earlier made reference? Are you for them or against them?

Mr. GULICK. Personally, I have to say, Mr. Chairman, in all honesty that I am delighted with the action. I must also say in the same breath that the final decision on this must be made by the President, and I am in no position to do other than support whatever decision he comes up with.

Senator BARTLETT. That is right. We understand.

What if this committee should take identical action with that of the House committee and this would be followed by like action on the part of the Appropriations Committees? Have you any notion or not whether this greatly increased amount of money would be spent or would it again be frozen?

Mr. GULICK. I do not know. My only clue to this is in the President's budget message which to me indicates that certain restrictions have been placed upon spending under present conditions. I believe the President has indicated that should these conditions improve, there could be a different answer to the question of spending.

Senator BARTLETT. What research projects are contemplated to be undertaken in fiscal 1969 by the Maritime Administration?

Mr. GULICK. We have projects broken down, Mr. Chairman, into several areas. At the moment, the rather reduced level of R. & D. spending is going to permit us to deal only with reduction of operating costs at sea projects, primarily to those dealing with ship control and ship maintenance to the tune of \$1 million and advanced ship concepts, \$1,369 million, covering exploratory ship research, \$369,000, the competitive merchant ship project, which is an effort to deal with the best integrated system for containerization in the case of dry cargo or bulk ship carriage, \$750,000, and advanced research technology, \$250,000. These, plus the *Savannah* operation amounting to \$3.4 million, and \$931,000 for administrative expenses make a total of \$6.7 million.

Senator BARTLETT. What projects were lost due to the \$4 million-plus reduction in this R. & D. item in your original request?

Mr. GULICK. Such items as continuation of directed research in reduction of port cost projects dealing primarily with the problem of loss of time and increased cost in, as we phrase it, the 250 feet from the rail or truck discharge and the stretch of pier between that point and the ship side. We had projects there looking forward to integrated cargo handling and terminal improvement.

Senator BARTLETT. How much did you ask for in respect to water pollution caused by discharge of oil?

Mr. GULICK. We have this project, Mr. Chairman, \$95,000 in fiscal 1968, with some adjustment to the plan, a revised figure of \$105,000. We plan to obligate this year out of that amount \$82,000 with a carry-over of \$23,000 for further efforts in this regard. We are not going to be able to use that \$23,000 in 1969. It has to be played into some other work.

Senator BARTLETT. Is any other agency or are there any other agencies of the Federal Government taking over this oil pollution study?

Mr. GULICK. There are not in exactly the same context in the sense that we were attempting to develop a piece of equipment that could sanitize the dirty bilge water and so forth, provide controls on board the ship as an alarm device to give warning when oily water is about to be or is being discharged. We have a piece of equipment which we propose to continue working on to the best of our ability which will actually separate the oil from the water and permit the discharge of sanitized water.

Now, there are in several other areas of the Government, but primarily in, I believe, in two—a group which is now concerned with sea pollution, a followup of the *Torrey Canyon* type disaster, which is quite interested in proceeding along this line. The Department of Transportation has a heavy part in this, and the Marine Resources Council is also giving consideration to this same problem. I believe the Department of Interior is quite involved in that effort.

Senator BARTLETT. The Coast Guard is an agency within the Department of Transportation that is doing this?

Mr. GULICK. That is correct, sir.

Senator BARTLETT. And how much did you ask for?

Mr. GULICK. On this, we only had remaining this year for carryover into 1969, \$23,000.

Senator BARTLETT. And you said you asked for how much for 1969?

Mr. GULICK. I will have to supply this for the record. I do not have it, Mr. Chairman.

Senator BARTLETT. All right.

I cannot personally think of a more important activity. It would be of paramount concern to all the people. And the problem is becoming more and more acute. I know up in Cook Inlet in Alaska where very considerable oilfields have been developed, we are having increasing oil pollution. And it is doing bad things to the wild fowl population and bad things to the fish population. And the sooner we move, the better off we are.

Do you have high hopes of this equipment turning out satisfactorily?

Mr. GULICK. We do, sir.

Senator BARTLETT. And being able to be used in the near future?

Mr. GULICK. We do, sir.

(The information requested follows:)

A review of the records indicated that no funds were included in the original R&D request of \$11 million for the oily discharge project since this project had reached the stage where further development would require funds in excess of \$300,000. Since this was substantially in excess of previous year requirements, continuation of the project was deferred in view of the restraints on the 1969 budget.

Senator BARTLETT. The House did nothing about this particular item?

Mr. GULICK. The House action, of course, put our R. & D. authorization up from \$6.7 to \$11 million.

Senator BARTLETT. All right, let us say that goes through by way of authorization and by way of appropriation, is it your intention to use part of this money for this purpose?

Mr. GULICK. Yes, sir.

Senator BARTLETT. I hope it is accomplished, then.

Now, does the Maritime Administration do these studies itself or do you farm them out?

Mr. GULICK. We have, Mr. Chairman, such a small group of qualified engineers and scientific types in our R. & D. group that it is necessary for us to do most of this work by contracting out to qualified research groups, technical organizations, universities, et cetera.

Senator BARTLETT. You contract; you do not negotiate?

Mr. GULICK. We contract; that is right, sir.

Senator BARTLETT. Now, Mr. Gulick, I want to bring up a subject that has not been conceived on the spur of the moment, as you know. And you have had talks with committee members and staff members about this on several occasions. So this subject is not conceived on the spur of the moment. I want to discuss with you with your permission the subject of civil rights as they relate to employment practices in the Maritime Administration.

It is true, of course, that the maritime industry may appear to the casual observer to be somewhat confusing. In fact, I would go a bit

further and say it appears to be confusing to one who is more than a casual observer at times. But one characteristic of its existence is readily apparent to the most naive observer. And that is the fact that this industry is perhaps more closely related to the Government than any other we know. The Government in this case is in a very real sense a business partner providing construction funds, operating funds, allowing tax-free reserve funds and requiring that military and other cargoes be carried on U.S. vessels. This relates, of course, to a segment of the fleet. And there are other aids as well, such as financing assistance under title XI.

The law of the land, the 1936 act, recognized—although the message has not reached all quarters having to do with national defense—that the merchant marine is a vital component of our defense effort. In short, you cannot really separate the merchant marine, particularly the subsidized operators, from Government policy.

Our National Government, in accord with the dictates of the Constitution and expressed will of Congress, is absolutely dedicated to a policy of equal opportunity to all regardless of race, religion, color, or national origin. And anyone who does business with the Government and benefits directly from its activities and expenditures must pursue that policy as well.

Approximately what present amount of your administrative expenses are attributable to assuring that a policy of equal employment opportunity is followed by the U.S. flag operators, Mr. Gulick?

Mr. GULICK. This is something in which we have been, not only interested, but deeply concerned for a number of years. Our personnel in our coast district offices make regular visits to the offices of the subsidized operators; and, in fact, in several instances have arranged for the appointment of minority groups through such media as in the case of New Orleans, a very close cooperation with the local areas, chambers of commerce, other groups, employment offices, in order to encourage the employment of minority groups and, in fact, to encourage their training in high schools. In New Orleans, for instance, our coast office there, I know through personal knowledge, has gone to several of the high schools and other technical schools, encouraging the minority graduates to apply for positions in the steamship industry.

In addition to this we had formerly been the administering group to enforce the antidiscriminatory provisions of existing law and the Federal regulations on this subject with our shipyard contractors. We now have an expanded assignment in this regard, having recently been given the task by the administration of policing all shipyards in the United States, whether engaged in Maritime Administration work or in Department of Defense work.

Now, moneywise, and the number of people who have been involved in this would be rather difficult to give off the top of my head. I would say that of our administrative expense, perhaps between \$200,000 and \$250,000 could be traced to this activity.

I may say that we have recently upgraded the administration of this type of activity from an employee in one of our office groups to my Assistant Administrator for Administration which is directly responsible to me. I assure you that he is doing a very fine job in this

regard. And the emphasis from topside in the organization is having a very desirable effect.

Senator BARTLETT. Do you have any personnel who are specifically dedicated to this work?

Mr. GULICK. We do, Mr. Chairman. We have one man who is primarily charged with the enforcement of these provisions and in the promotional side which to me is even more important than the enforcement activities. He is assisted, I believe, by two people. And counting those in the field who are also engaged in this activity, I would say approximately 20 people are giving all or part of their time to this activity.

Senator BARTLETT. What degree of cooperation do you find among the operators?

Mr. GULICK. We find a very fine degree of cooperation at the moment. Example: The fair employment practices officer in the gulf coast district recently visited a subsidized company and checked on their activities. He was very pleased to find the utilization of minority groups there. And just to make certain that the attitude of the company was well known, the company in the presence of this officer, called the employment concern they rely upon to feed personnel to them and specifically requested—in fact, he said this was a confirmation of an earlier request—that they be furnished qualified minority employees.

Now, I brought the word “qualified” in because this is one of the problems. We can today acquire lower or lesser qualified employees in the lower levels of employment—the clerical, the secretarial, the typing, the filing, the general office work type. There is, as far as we are concerned from our view of the situation, a definite shortage of trained technicians and, certainly, executive personnel types. We have been encouraging the schools, colleges, the local business councils, to see to it that people are trained. We have, in fact, in our own agency various opportunities for training. We send people to college to give them on-the-job educational training. Out of this, we are able to develop some very well-qualified minority group people.

Senator BARTLETT. What degree of cooperation do you find among the unions?

Mr. GULICK. The unions, by and large, give full cooperation to this activity. I can speak of some specific examples.

For instance, at the longshoremen's convention last July in Miami, I would say that the majority of the delegates there were of a minority group. I have some very close friends in that organization from my old neighborhood in the port of Hampton Roads.

In the National Maritime Union, for example, in the Sailor's International Union, there is a large contingent of minority groups. I have never found, to my knowledge, any discrimination in these groups that in my judgment would require some corrective action.

On the contrary, I found a willingness to take a man for what he is.

Senator BARTLETT. If this wouldn't place too great a burden upon you, I should very much appreciate your supplying for the record the percentage of minority groups within each of the important unions.

(Mr. Gulick responded to the above request with the following information:)

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington, D.C., April 30, 1968.

Hon. E. L. BARTLETT,

Chairman, Subcommittee on Merchant Marine and Fisheries, Committee on Commerce, U.S. Senate, Washington, D.C.

DEAR SENATOR BARTLETT: At the hearings on April 9, 1968, on S. 3016 before the Subcommittee on Merchant Marine and Fisheries, Committee on Commerce, certain information was asked to be furnished for the record regarding the civil rights activities of the Maritime Administration.

Enclosed herewith is a statement which includes the requested information and references to the pages of the transcript where the testimony appears relating to the request.¹

At this time I should like to clarify portions of my testimony regarding the inclusion of a nondiscrimination clause in our operating-differential subsidy contracts. I was mistaken when I stated that we have an equal employment clause in those contracts. We do have an "Assurance of Nondiscrimination" clause which is required by Title VI of the Civil Rights Act of 1964 (Public Law 88-352) and the regulations of the Department of Commerce. Upon reviewing my testimony it is apparent that I confused that clause with an "equal employment" clause, which is not required to be included in the operating-differential subsidy contracts. The Assurance of Nondiscrimination clause in the operating-differential subsidy contracts requires the operator to comply with Title VI of the Civil Rights Act of 1964 and the Regulations of the Department of Commerce issued pursuant to that Act, and not to discriminate in serving a passenger or shipper of cargo.

As previously stated, we are not required by law or regulation to include in our operating-differential subsidy contracts a clause prohibiting discrimination in employment, and there does not appear to be any real need for such a clause in view of the provisions of Title VII of the Civil Rights Act of 1964 (Public Law 88-352, 78 Stat. 241, July 2, 1964). That title defines "employer" (Sec. 701 (b)), "labor organization" (Sec. 701 (d)), "unlawful employment practice" (Sec. 703) and establishes an Equal Employment Opportunity Commission with primary responsibility for effectuation of the title (Sec. 705). Enforcement is first administered before the Equal Employment Opportunity Commission, and provision is also made for civil action in the Federal Courts (Sec. 705). Officers and seamen of the subsidized operators appear to be fully protected by this title.

In order to correct the record, I have revised my comments regarding the nondiscrimination clause in the operating-differential contracts, on pages 54, 59, and 64 of the transcript.

Sincerely,

J. W. GULICK,
Acting Maritime Administrator.

The Equal Employment Opportunities Commission, U.S. Department of Labor, has undertaken the initial survey to determine the distribution, by race, of the employed members of labor organizations.

Deadline for submitting the union report (Form EE03) was originally set for September 30, 1967, and subsequently rescheduled to December 31, 1967. The postponement was necessitated by a large number of inaccurate or incomplete reports and a lack of understanding of reporting instructions. Many of these reports are still in the hands of union officials for revision or supplementary information.

Those reports that have been received and screened by EEOC for accuracy of format are being processed at present by a commercial firm under contract to DOL. Random inspection of selected union reports is not being permitted by EEOC at the present time due to the reported disruption such searches would entail while information is being handled by data processors.

Processing of data now in hand is expected to be completed in approximately two months, mid-June at the earliest, and will provide information on union membership composition by race (Negro, Spanish, Oriental, Indian, and White).

¹ The information has been inserted where discussed.

Senator BARTLETT. Do you personally know of any member of minority race on the executive level?

Mr. GULICK. Are you talking about the subsidized operators, steamship operators, or the unions, Mr. Chairman?

Senator BARTLETT. No, the operators.

Mr. GULICK. I believe there are at least trainees in this regard, and I seem to recall some recent appointments of supervisory or executive type personnel in the companies. But I would prefer to check this and furnish it for the record.

Senator BARTLETT. If you will, then, furnish it for the record.

(The information follows:)

Available data on members of minority races holding positions with steamship operators at the managerial and executive levels is very limited. However, recent information received on nine steamship operators shows employment at the managerial and executive levels of persons of minority races as follows:

	Managerial level
Negro -----	13
Oriental -----	30
American Indian -----	0
Spanish American -----	12

Senator BARTLETT. Do you know if there are any minority race cadets at the Merchant Marine Academy?

Mr. GULICK. Yes, sir. And, in fact, this last year and the year before, a deliberate effort was made by visitation to minority group or predominantly minority group educational institutions to encourage application for appointment to Kings Point.

Senator BARTLETT. Will you please furnish for the record the number of such students?

Mr. GULICK. I will be glad to furnish this, sir.

The number of minority race Cadets at the Merchant Marine Academy, by graduating classes are as follows:

	Class of—			
	1968	1969	1970	1971
Negroes -----	1	3	0	2
Oriental -----	2	2	0	1
American Indians -----	0	0	0	1
Spanish-Americans -----	0	0	0	0

Senator BARTLETT. Did you say that provisions are placed in the construction-differential subsidy contracts and operating subsidy contracts relating to the requirement having to do with equal employment practices?

Mr. GULICK. We have an equal employment clause in our construction-differential subsidy contracts, but we do not have, and we are not required by law or regulation to have such a provision in our operating-differential subsidy contracts. However, we are able to get full cooperation from the subsidized operators without such a provision, and in view of the provisions of title VII of the Civil Rights Act of 1964, prohibiting discrimination in employment, we do not feel that there is need for amending the contracts to include such a clause.

Senator BARTLETT. And you said likewise, as I recall, that the Maritime Administration has followup procedures to determine if these provisions are being enforced?

Mr. GULICK. Yes, sir.

Senator BARTLETT. Well, I would be very much interested in your answer which you are going to supply for the record relating to employment of Negroes, for example, at the executive level of steamship operators. I have been to dozens of meetings, maybe hundreds by now, and I do not recall having seen a Negro at such a meeting in a management capacity. Maybe your report will clear this.

Mr. GULICK. We will be happy to check into this, Mr. Chairman.

Senator BARTLETT. Do you feel your agency is doing all it can do to further fair employment practices among the steamship operators and all it should do?

Mr. GULICK. We are now in the process of adding additional staff both in headquarters and the field to cover our expanded responsibilities for compliance which will require using certain funds in our 1969 budget.

Senator BARTLETT. In your original request for funds on the various levels, the request that was dealt with in my judgment rather brutally by the Commerce Department, did you ask for any more money for this activity?

Mr. GULICK. My recollection, Mr. Chairman, is that we requested approximately \$100,000 additional money to enable us to fulfill as we thought we should our enforcement activities under the new assignment of policing, particularly the shipbuilding contract area.

Senator BARTLETT. And you got zero out of that additional request?

Mr. GULICK. We were maintained at our present level.

Senator BARTLETT. We are just putting it in different ways. The answer was the same.

What priority, Mr. Imhoff, would you consider that to have in the total scheme of things?

Mr. IMHOFF. We consider it to have a very high priority, Mr. Chairman.

I am afraid I will have to differ with Mr. Gulick on one point. The money requested for the maritime salaries and expenses appropriation was approved in its entirety by the Department; subsequently, there was a small rounding reduction by the Bureau of the Budget.

Mr. GULICK. Let me explain this, Mr. Chairman, if I may. Mr. Imhoff is right in the sense of the budget request. I remember now. The assignment of this enforcement authority arose subsequent to the packaging of the budget, and we were requested to do the best we could with our existing funds and existing staff with the understanding that as we developed firmer base for more funds or more people, we would present the request. I assume this will be done in the packaging of the 1970 fiscal year budget.

Mr. IMHOFF. I wanted to stress the point that we certainly did not cut this as a line item; that the Secretary did approve the full amount of the Maritime salaries and expenses appropriation request.

Mr. GULICK. This is correct.

Senator BARTLETT. You did not ask for it, then?

Mr. GULICK. That is correct, sir; not in this budget.

Senator BARTLETT. Would you recommend that Congress enact specific legislation pertaining to the maritime industry to strengthen your authority in this area?

Mr. GULICK. At the moment, Mr. Chairman, I would be inclined to say that this would be unnecessary at least until we have been able to carry on our work a little bit more to see exactly what the level of cooperation is in the steamship industry. This would be handled as a part of our promotional activities.

This is to say, I do not believe we are at the stage where we need a club to force compliance. Not at the present moment.

Senator BARTLETT. Do you require subsidized operators to report on their compliance with this provision which we are discussing?

Mr. GULICK. We have no regular reporting procedures. This is handled, as I indicated earlier, by the assignment of people from the various coast district offices to check into the situation and see for themselves what the situation is.

Senator BARTLETT. Do you not think it might be well to institute a reporting procedure?

Mr. GULICK. We will certainly be glad to give consideration to this, sir.

Mr. BARER. Mr. Gulick, under the present situation, the operator is not required to report directly to you, but rather your various district employees as a part of their total duties are required to take cognizance of this issue, is that correct?

Mr. GULICK. That is correct, sir.

Mr. BARER. Have you promulgated any requirement as to your district employees reporting to you at specific periods of time as to this specific issue, or only as controversy arises?

Mr. GULICK. I think it would be at the moment the latter.

Mr. BARER. Would you express your judgment as to the wisdom of perhaps in addition to requiring the operators to report directly on this, your district representatives also report at specific times on the specific issue to you?

Mr. GULICK. We have fairly regular supervisory visits from Washington to the field on problems such as this. Of course, this is not the only one of this type. The activities so far have been covered by the district people, but supervision of the district people from the Washington office and by discussions in the semiannual meetings we normally have each year with the coast district offices when they come to Washington to report on their activities. This is a part of their reporting procedure.

Mr. BARER. Have you, in your work with the U.S.-flag operators, particularly the subsidized operators, made any requirement or suggestion that when they advertise employment opportunities, let us say, on a managerial level for attorney or accountant or any type of executive personnel, that they include in that advertisement or disclosure that they are in fact a fair employment practices employer?

Mr. GULICK. We go even further than that, Mr. Barer. We have even urged them to give consideration, active consideration to the employment of minority groups who are qualified.

Mr. BARER. But are they required, do you require them in advertisement for employees to make any type of statement on this issue?

Mr. GULICK. To my knowledge, I cannot speak to this.

Mr. BARER. Do you think you have the legal authority to do so?

Mr. GULICK. We do not have authority to enforce such advertising.

Mr. BARER. Could you make this a requirement of an operating subsidy contract or construction-differential subsidy contract? In other words, if you have the authority to put provisions in your operating subsidy contract for fair employment practices, does that same authority perhaps authorize you to require in greater detail specific action such as in advertising for employees that there shall be a statement as to being an equal opportunity employer? In other words, if you have the authority to state the broad proposition in the contract, can you state the specific matter as well?

Mr. GULICK. Well, of course, the broad requirements are mostly in implementation of the existing antidiscriminatory or fair employment practices at the national level. These involve some of the civil rights requirements which are now in the statute books and this sort of thing.

I do not think consideration has been given as yet to your suggestion. We will be very glad to take it under advisement and cooperate to the best of our ability.

Mr. BARER. Are there any provisions in title XI contracts relating to this issue?

Mr. GULICK. I do not know of any offhand.

Mr. BARER. If such provisions are in your operating subsidy contracts and your construction contracts, do you think it would be equitable and wise to put them in title XI also, your title XI contracts?

Mr. GULICK. Since this is by and large an insuring or guarantee activity, frankly, I am not sure just what the extent of our authority would be. But I can give you assurance that we will look into it immediately.

Mr. BARER. And particularly you might relate this to the practices of FHA mortgage insurance, how they handle this issue.

We do not require a nondiscrimination clause to be included in our title XI contracts because those contracts provide for the Government to insure loans and mortgages on ships, and it would be contrary to the integrity of such insurance to include a provision which permitted the Government to cancel the insurance if the lender, or a trustee for bonds issued to the public, failed to comply with a nondiscrimination provision.

Section 1103(d) of the act pledges the faith of the United States to the payment of the interest on and the unpaid balance of the principal amount of each loan or mortgage insured under title XI. Section 1105 (e) of the act provides that a contract of insurance, which runs for the benefit of the lender or bond purchasers, is incontestable "except for fraud, duress, or mutual mistake of fact". That section also provides that the insurance contract or commitment "shall not be terminated, canceled, or otherwise revoked for any reason, except as provided in section 1105."

It should also be noted that a nondiscrimination clause is wisely not required to be included in title XI contracts by other laws or regulations, such as the Civil Rights Act of 1964 (Public Law 88-352, 78 Stat. 241, July 2, 1964), Executive Order 11246, or 41 C.F.R., chapter 60.

We have been advised by FHA that it does not require a nondiscrimination clause to be included in its mortgage insurance contracts for substantially the same reasons that we do not include such a provision in our insurance contracts.

Mr. BARER. You recommended against, at this time, Congress enacting or you recommending specific legislation relating to this matter in the maritime industry. Do you feel that your legal authority is sufficient now to undertake an aggressive effective program to assure equal employment practices?

Mr. GULICK. I will put it this way, Mr. Barer: I think that there are many, many areas in which we could operate on a cooperative or promotional level which perhaps—and this is just an off-the-top reaction which perhaps should be tried first before going into more basic or specific requirements—we could obviously do more in this regard if we had more people giving consideration, primarily to this type of activity. We are now engaged in planning. My Assistant Administrator for Administration is giving consideration right now to a program to carry on this promotional activity. This has not been completed, and I am not in a position at the moment to say exactly how many types we need, how much money we need or this sort of thing.

Mr. BARER. Mr. Imhoff, if Congress should authorize and appropriate additional funds in this bill to enlarge and increase the effort of the Maritime Administration in this matter, would the Department of Commerce in your opinion recommend expenditure of the funds if they were appropriated?

Mr. IMHOFF. Are you talking about this committee? The authorization bill does not include funds for the salaries and expenses account.

Mr. BARER. Is there any way that Congress can increase that amount, then?

Mr. IMHOFF. Well, it would have to be done via the appropriation process. And I am afraid I cannot answer your question.

Mr. BARER. All right, if additional funds were authorized specifically for that purpose in the authorization bill and the appropriate committee follows suit, do you have any—I realize this is speculation, but could you hazard a guess as to what the policy of the Department or the Bureau of the Budget will be so far as expending these additional funds for this purpose?

Mr. IMHOFF. Well, I certainly cannot answer for the Bureau of the Budget.

As far as the Department is concerned, we are doing all we can to promote full compliance with the equal opportunity laws and regulations, even to the point of trying to promote affirmative programs within industries with which we deal, particularly in the contracting field. I think we would have to review with Mr. Gulick what the requirements are, and what the possibilities are, for further work in this field. And if the Congress saw fit to increase the amount, I guess we would be guided by the wishes of the Congress in this regard.

I cannot say to you at this time what if any additional resources we need for this purpose. We have at the departmental level a small, but very competent staff that works in this field. As a matter of fact, our folks in the Secretary's office have been working very closely with Mr. Gulick's people in mounting an effective compliance program in the maritime field.

Mr. BARER. Mr. Gulick, we have discussed your efforts with regard to U.S.-flag operators and also unions. Your construction subsidy contracts are direct immediate benefit also to shipyards. What provisions and procedures have you undertaken to assure equal employment opportunities by shipyard companies? I do not mean shipyard labor; I mean management level within the shipyards.

Mr. GULICK. In two areas. We have been quite active here.

First, by law, we cannot award a contract for ship construction unless a survey has been undertaken and a finding has been made that the particular shipyard engages in no unfair employment practices. This has recently been extended, as I indicated earlier, to cover, not only the shipyards with which we contract, but we are now required by a fairly recent assignment to make the same finding for any shipyard which is about to be awarded a Department of Defense contract.

Now, not having the staff at the moment, obviously, to fully implement on a planned program basis the overall shipbuilding industry compliance, we have been working with the Department of Commerce and with the Department of Labor. In several instances, Labor Department personnel have been loaned to us on a spot assignment basis. And the Department of Commerce has engaged in the same practice. We are now in the process of developing a going enforcement program.

We are new to this area. We really at this particular moment do not know exactly how much work will be involved or those areas that should be covered from a promotional point of view as opposed to the strict contract enforcement side of this thing. As soon as we have completed our consideration of what is needed, then we definitely propose to make positive and we think constructive recommendations for both the enforcement and the promotional side.

Mr. BARER. Along with the other information that you are supplying for the record on this issue, could you supply the contract provision language that is in your construction contracts and operating contracts?

Mr. GULICK. We will be glad to; yes, sir.
(The information follows:)

Attached hereto, marked "Attachment A" is a copy of the nondiscrimination clause which appears as Article 27 in our ship construction contracts. Also attached, marked "Attachment B", is a copy of a clause which appears as Article 11(c) of our Invitation for Bids for the construction of vessels, which provides for the bidder and first tier subcontractors of one million dollars, or more, to agree to be subject to full, preaward equal opportunity compliance reviews, before the award of the contract, for the purpose of determining whether the bidder and his subcontractors are able to comply with the provisions of the Equal Opportunity Clause as stated in Executive Order 11246.

Attached hereto, marked "Attachment C", is a copy of the Assurance of Nondiscrimination clause which appears as Article I-17 in our operating-differential subsidy contracts. This clause is required to be included in contracts in which the contractor is the recipient of Federal financial assistance. See Title VI of the Civil Rights Act of 1964 (Public Law 88-352) and the Regulations of the Department of Commerce (30 F.R. 305).

We are not required by law or regulation to include in our operating-differential subsidy contracts a clause prohibiting discrimination in employment, and there does not appear to be any real need for such a clause in view of the provisions of Title VII of the Civil Rights Act of 1964 (Public Law 88-352, 78 Stat. 241, July 2, 1964). That title defines "employer" (sec. 701(b)), "labor organization" (Sec. 701(d)), "unlawful employment practice" (Sec. 703) and establish an Equal Employment Opportunity Commission with primary responsibility for

effectuation of the title (Sec. 705). Enforcement is first administered before the Equal Employment Opportunity Commission, and provision is also made for civil action in the Federal Courts (Sec. 705). Officers and seamen of the subsidized operators appear to be fully protected by this title.

ARTICLE 27. *Prohibition Against Discrimination in Employment and Use of Convict Labor.*—(a) During the performance of this Contract, the Contractor agrees as follows:

(i) The Contractor will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. The Contractor will take affirmative action to insure that applicants are employed and that employees are treated during employment, without regard to their race, creed, color or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Board setting forth the provisions of this non-discrimination paragraph (a).

(ii) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, creed, color or national origin.

(iii) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the Board, advising the said labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(iv) The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

(v) The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules and regulations of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the Board and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

(vi) In the event of the Contractor's non-compliance with the non-discrimination provisions of this Article 27, or with any of the said rules, regulations, or orders, this Contract may be cancelled, terminated, or suspended, in whole or in part and the Contractor may be declared ineligible for further government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in the said Executive Order or by rules, regulations or orders of the Secretary of Labor, or as otherwise provided by law.

(vii) The Contractor will include the provisions of subparagraphs (i) through (vi) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Board may direct as a means of enforcing such provisions, including sanctions for non-compliance: *Provided, however*, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the Board, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

(b) The Contractor shall not employ any person undergoing sentence of imprisonment at hard labor.

ADDENDUM TO OPERATING DIFFERENTIAL SUBSIDY AGREEMENT WITH PRUDENTIAL LINES, INC.

This agreement, made by and between the United States of America (herein called the "United States"), represented by the Secretary of Commerce (successor to the Federal Maritime Board pursuant to Reorganization Plan No. 7 of 1961), acting by and through the Maritime Subsidy Board (said Secretary of Commerce acting by and through the Maritime Subsidy Board being herein and

in the Subsidy Agreement called the "Board"), and Prudential Lines, Inc., a corporation organized and existing under the laws of the State of New York (herein called the "Operator"), as an addendum to that certain agreement, Contract No. FMB-113 (herein called the "Subsidy Agreement"),

Witnesseth:

Whereas:

1. The Board has made the necessary determinations and findings in accordance with the Merchant Marine Act, 1936, as amended; and
2. The Board has authorized a certain amendment to the Subsidy Agreement; and
3. The parties hereto have agreed to said amendment and desire to incorporate the same into the Subsidy Agreement in the manner hereinafter set forth.

Now, therefore, in consideration of the premises, the parties hereto agree as follows:

I. Effective February 25, 1965, Part I of the Subsidy Agreement, as heretofore amended, is hereby further amended by the addition thereto of Article numbered "I-14" reading as follows:

"I-14 Assurance of Nondiscrimination

"The Operator hereby covenants and agrees that with respect to the operating-differential subsidy program for which the Operator is a recipient of Federal financial assistance from the Department of Commerce, it will comply with Title VI of the Civil Rights Act of 1964 (P.L. 88-352) and the requirements imposed by or pursuant to the Regulations of the Department of Commerce (30 Fed. Reg. 305) issued pursuant to that Title; and hereby gives assurance that it will immediately take any measures necessary to effectuate this agreement.

"In accord with such assurances, the Operator agrees that it will not participate directly or indirectly in any manner in any discriminatory act or course of conduct prohibited by Section 8.4 of the Department of Commerce's Regulations with respect to the soliciting, accepting or serving in any way any person in the United States who is a passenger or shipper of cargo on vessels covered under this Subsidy Agreement, and any violation by the Operator of any of the provisions of this assurance of nondiscrimination shall constitute a material breach of this Subsidy Agreement.

"These assurances, which shall obligate the Operator and be in effect for the period during which the Federal financial assistance is extended to it by the Department of Commerce, are given in consideration of and for the purpose of obtaining and continuing in effect any financial assistance extended after the date hereof to the Operator by the Department for the program, including any payments or other assistance to be rendered pursuant to agreements extending financial assistance which were approved prior to such date.

"The Operator further recognizes and agrees that such financial assistance will be extended by the Department of Commerce in reliance upon the representations and agreements made in this assurance of nondiscrimination, and that the United States shall have the right (in addition to any of its other rights under this Subsidy Agreement) to seek judicial enforcement of these assurances. These assurances are binding on the Operator, its principals, officers, employees, agents, successors, transferees, and assigns."

Mr. BARER. I am in full accord with your statement that an awful lot can be done by promotional activities as well as contract language. Has any thought been given to the idea of establishing or promoting the formation of an industry committee on this issue?

I know you have many advisory committees that you utilize. For example, I know of one recently called the Cargo Rate Differential Advisory Committee. Could some thought be given to that idea?

Mr. GULICK. Yes, sir.

Senator BARTLETT. Now, Mr. Barer and Mr. Gulick, the hour grows late, and we have not, unhappily for you, yet completed our questioning. Can you return in the morning?

Mr. GULICK. Be glad to, sir.

Senator BARTLETT. All right.

The committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 10 a.m. on Wednesday, Apr. 10, 1968.)

in the Subsidy Agreement called the "Board," and President James, Inc., a corporation organized and existing under the laws of the State of New York (herein called the "Operator"), as an addendum to that certain agreement (hereinafter No. EMB-113) between called the "Subsidy Agreement."

Witnesseth:

Witness:

1. The Board has made the necessary deliberations and findings in connection with the Subsidy Agreement, 1930, as amended; and

2. The Board has authorized a certain amendment to the Subsidy Agreement,

and

3. The parties hereto have agreed to said amendment and desire to incorporate the same into the Subsidy Agreement in the manner hereinafter set forth.

Now, therefore, in consideration of the premises, the parties hereto have agreed as follows:

Article I. Effective February 25, 1935, Part I of the Subsidy Agreement, as hereinafter amended, is hereby further amended by the addition thereto of Article II hereinafter amended as follows:

Article II. (Amendment of Subsidy Agreement.)

The Operator hereby covenants and agrees that with respect to the operating

indefinite and only program contained in the Operator is a subject of debate

indefinite or debate from the Department of Commerce, it will comply with the

7) of the Civil Airline Act of 1930 (49 U.S.C. 252-253) and the requirements thereof

as to payment to the Department of the Department of Commerce, and of the

and based upon the fact that this board does not desire to

actually take any measures necessary to operate this agreement.

It is agreed with such measures, the Operator agrees that it will not

be, directly or indirectly, engaged in any discrimination or in the course of

any other business or activity in which it is engaged, a discrimination

against or in favor of a certain class of persons or in favor of any person in the

which it is engaged, or in the course of its business, or in the course of its

United States who is a passenger or shipper of cargo on a foreign carrier.

This Subsidy Agreement, and any amendment by the Operator of any of the

terms of this agreement of non-discrimination shall constitute a material breach

of this Subsidy Agreement.

These amendments shall be subject to the approval of the Operator and be in effect

from the date of the amendments which are contained in the amendments to the

operator during which the Board of Commerce is required to file the

Department of Commerce and to file a copy of the amendments to the

operator and to file a copy of the amendments to the Department of Commerce

and to file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

file a copy of the amendments to the Department of Commerce and to

MERCHANT MARINE APPROPRIATIONS AUTHORIZATION

WEDNESDAY, APRIL 10, 1968

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met at 10:07 a.m., in room 5110, New Senate Office Building, the Honorable E.L. Bartlett presiding.

Senator BARTLETT. The committee will be in order.

Mr. Gulick, Mr. Imhoff, and the others at the table, we are sorry that despite the very considerable time available yesterday, we did not get through with our questions. Mr. Barer has at least a few more to ask; I have many to ask.

Mr. Barer.

STATEMENT OF J. W. GULICK, ACTING MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE, WASHINGTON, D.C.; ACCOMPANIED BY CARL DAVIS, GENERAL COUNSEL, MARITIME ADMINISTRATION; AND WILLIAM HENEGHAN, BUDGET OFFICER, MARITIME ADMINISTRATION; ALSO LAWRENCE E. IMHOFF, DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION, DEPARTMENT OF COMMERCE, WASHINGTON, D.C.

Mr. BARER. Mr. Gulick, last February 12, Secretary of Commerce Trowbridge and yourself and some other officials from that Department testified before this subcommittee on the present state and future of the U.S. merchant marine. At this time, we learned there were only 211 vessels left in the reserve fleet which could actually be utilized for the carriage of cargo without substantial modification. How does the pending bill recognize this deficiency?

Mr. GULICK. The authorization bill does not cure any deficiency in this connection, Mr. Barer. The authorization bill merely provides, as in the case of some of the other programs, for a holding action. The reserve fleet is already just about down to the bottom of the barrel. It comes out about this way on a broad look at the fleet for purposes of future planning.

The backbone of the reserve fleet over the next 10 years is going to be about 130 Victory ships to be selected from those now operating in service under general agency agreements to Southeast Asia. Of course, the availability of these ships will depend upon their proper maintenance and their layup and preservation. The fleet itself in addition to these ships has today available for breakout, but at some

rather high cost, 19 Victory ships which have not been reactivated for Vietnam. These will be available only until around 1975; 18 Victory AP-2 ships configured as troop ships also available only until about 1975; 31 smaller ships of the C-1A and C-1B class available only until 1969 because we are not expending, planning to expend, money on their preservation; and 37 C1-M-AV1 ships commonly called "Cimavis" will be available until around 1971.

In addition to these, there are 187 standard dry cargo Liberty ships under preservation. But all preservation on these ships will cease as of June this year. And they will be expected to be available in an extreme emergency use only until around 1971.

The rest of the fleet is composed of a large number of scrap ships, certain miscellaneous types and certain priority ships on both a maritime and a navy priority listing such as 104 AP-5 troop ships. This is a Victory type, the larger one, which are potentially convertible to dry cargo configuration at a cost of probably not less than \$3.5 million per ship. This, Mr. Barer, is our reserve fleet.

Mr. BARER. Now, Mr. Gulick, from time to time, there are additions to this fleet, is that correct—trade-ins?

Mr. GULICK. Trade-in ships come into the fleet, right.

Mr. BARER. Generally, the trade-in vessel is worse than the trade-out vessel, is that not true?

Mr. GULICK. This is true and particularly so because from now on all of the ships coming into the fleet as trade-ins either on new construction or under the exchange program are going to be quite old and not at all in good shape.

Mr. BARER. Now, of the 292 vessels that are listed as dry cargo ships on the attachment to your statement which you just summarized, what is the average age of those 292 vessels?

Mr. GULICK. Let me get the attachment briefly.

These are every one over 20 years of age.

Mr. BARER. What is the normal useful life of a merchant vessel?

Mr. GULICK. Depending upon the care which has been given the ship, it could run from 15 to 30 or more years.

Mr. BARER. Does this figure of 292 include any of the 170-some vessels that were broken out for Vietnam duty?

Mr. GULICK. It does not, sir.

Mr. BARER. Well, will any of those be put back into the fleet and become part of this dry cargo ship category?

Mr. GULICK. We anticipate that of the 148 now allocated for operation to Southeast Asia, approximately 18 will be in such bad shape they will not be good economic projects to go back into the fleet. This will leave the 130 I mentioned a moment ago. Even some of those might not be worth while, depending upon how long they are used in Southeast Asia service.

Mr. BARER. As I read the figures in your attachment, it indicates that by 1971, 255 of the 292 vessels now listed will no longer be in the reserve fleet. That leaves a total of 37 ships in that category. Is that not correct?

Mr. GULICK. I do not have those figures.

Mr. BARER. What I have done is added the figures 187, 37, and 31. If my addition is correct, that adds up to 255. And I subtracted the 255 from 292. That leaves 37 vessels.

Mr. GULICK. Correct. I agree.

Mr. BARER. Do you feel that 37 cargo vessels provides a strong reserve fleet to aid our national defense?

Mr. GULICK. I certainly do not. But do not forget, please, I mentioned that these would be supplemented by approximately 130 coming back from Southeast Asia operations.

Mr. BARER. Those are the ones we spent somewhere over a half a million dollars apiece on, to put them into the water.

Mr. GULICK. That is correct.

Mr. BARER. And yet 18 of those are so bad they are going to be scrapped for sure, not even put back into the fleet?

Mr. GULICK. In all probability, there will be at least 18 we will not put back into the fleet.

Mr. BARER. Mr. Gulick, you may not want to answer this in any detail or even comment on it, but my understanding is that some months ago, when the Middle East crisis broke out, your agency did a study as to our ability to maintain a supply line to another part of the world in addition to Southeast Asia. Was such a study done?

Mr. GULICK. Are you talking about a recent study?

Mr. BARER. Or a study at that time to see what our response capability was in the area of being able to carry cargo to two crisis areas at the same time.

Mr. GULICK. I do not have any hesitation, Mr. Barer, in saying that every now and again we conduct an exercise just to be sure we know where we stand and how we can handle things which might come up on a contingency basis. We did postulate the possibility of a need for, say, in round figures, 100 ships. And we picked this right out of the air. We had no advice on this from any other Government agency or any other source. This was our own doing.

We said, "Suppose we need 100 additional ships, where would they come from and how much would it cost?" I do not have the cost figures at my fingertips. In any event, they were strictly off the top estimates. I will say that they were completely exorbitant; that in order to break out some of these ships we are talking about in the dry cargo type that are in the listing attached to my statement, the cost could well be in excess of \$800,000 per ship. And of the 100 available, a great majority of this 100 would have to be taken out of the Liberty ship class which means small cargo capability, which means slow speed, and which means pretty horrible quarters for crews and this sort of thing.

Mr. BARER. Those are the ones that are given a life only to 1971 in the reserve fleet, is that not correct?

Mr. GULICK. That is correct, sir.

Mr. BARER. There is a reserve fleet base at Olympia, Wash.?

Mr. GULICK. Yes, sir.

Mr. BARER. Are there any present plans to phase out that operation?

Mr. GULICK. The agency is taking a very close look at all of the reserve fleet sites. Astoria and Wilmington will be phased out very shortly—probably by the end of this fiscal year. No more ships are in Astoria. I believe there is one being held temporarily on an exchange application. Wilmington has only a small number—around, I believe, 20 ships of the scrap variety. We have just accepted a bid for the sale of those ships for scrap.

Now, this means that two of the eight fleets are already just about out. This leaves six. Depending upon the number of ships to be preserved and the cost of this preservation, we have to decide whether to retain in existence six fleets or reduce the number of fleets to, say, three, one on each coast, or for that matter even go below that. We have not reached any positive conclusions on this as yet. Our answer will be dependent largely upon plans for the reserve fleet, need for a reserve fleet, and numbers of ships.

I would say in answer to your question specifically that I do not believe anyone could say positively at this stage that Olympia or any other fleet is to be phased out apart from the two I originally mentioned.

Mr. BARER. In the event of a phaseout in any one of these sites, are any steps taken to help those working at those sites to find other employment? They are Government employees, are they not?

Mr. GULICK. They are Government employees, and steps are definitely taken to provide for a change in employment or other action which can relieve the people from any financial distress as far as it is within our power to do so.

For example, we arrange to transfer to other locations and other jobs, those people who can be transferred, who are qualified to transfer and whose family and other requirements do not make it necessary for them to remain in the particular area. If we have people who are eligible for retirement and this has certainly been the case in Astoria, we assist them to take advantage of the best breaks on their retirement.

In addition, we advertise and interview all local area job opportunities in order to attempt to place people who have, say, a small number of years of service—who are general types, without specific skills—into jobs with private industry. So far we have been very successful in this regard. I do not know of any person who has been hurt by any of these closing activities.

Mr. BARER. With relation to the study you talked about a few minutes ago as to our ability to supply another area of the world such as a study you had done last summer, you indicated it would cost in excess of \$800,000 per vessel to get them into the water. How soon would these additional 100 vessels be ready for carriage of cargo in actual operation?

Mr. GULICK. I hate to qualify this, but, obviously, the length of time to put them on berth would depend almost exclusively on the speed requirements dictated by, say, the military. If they wanted all of these ships on berth within 3 months, the costs would go up—there is no doubt about this—because the ships would have to be activated on an around-the-clock type operation.

Mr. BARER. What period of time was used to determine the \$800,000-plus figure?

Mr. GULICK. The \$800,000-plus requirement is just about on a 3-month basis.

Let me check this statement, please, sir.

I do not have this with me. I will have to furnish this for the record. Mr. Barer.

(The information requested follows:)

The time periods for the 100 Ship Study were: 14 ships on berth within 15 days; 25 ships on berth in 30 days; 75 ships on berth in 60 days; 100 ships on berth in 120 days. These periods could be reduced by using additional work

shifts, towing vessels between districts, or changing vessel types. Costs involved were: Victory ship reactivation—\$800,000 per ship; AP2 troop ship reactivation—\$850,000 per ship; Liberty ship reactivation—\$450,000 per ship; and \$54,000 per ship for the return of ships to service that had been placed in inactive status because of reduced operating requirements.

Mr. BARER. One last question. With relation to your research and development activities which you elaborated upon yesterday, will any portion of those funds be utilized for a study of containerization? I am thinking specifically of the recent bill which became law which puts that duty upon the Maritime Administration to make that type of a study.

Mr. GULICK. We have no portion of the 1969 fiscal year request allocated to the specific type of study indicated in the recent legislation. Obviously, the reason for this is that the legislation came after the budget was already packaged and settled upon the administration—by the President.

Mr. BARER. In other words, the budget figure as in the request bill does not allow you funds to do this study which the law requires you to do?

Mr. GULICK. If we find that under the terms of the bill—and I have not given this consideration as yet to make this determination—that the study must be made within a very rapid time, the only course open to us will be to reprogram some of the projects we already have, if we have to make a choice.

Senator BARTLETT. Mr. Gulick, how much is the operation of the *Savannah* costing during this fiscal year?

Mr. GULICK. During the current fiscal year, 1968, her cost planned obligations are for \$3.3 million.

Senator BARTLETT. And where are the funds coming from for that operation?

Mr. GULICK. This is out of appropriated funds, Mr. Chairman.

Senator BARTLETT. Appropriated for what purpose?

Mr. GULICK. For the operation of the *Savannah*.

I trust we understand that this is a part of our research and development appropriation; and that, as a part of this commercial operation of the *Savannah*, we have a charter with the operator, First Atomic Ship Transport, Inc.—FAST, for short—under which the operator forecasts and the agency agrees upon the amount of revenue to be generated and then pays the difference between the cost of operation and any lack of funds. This comes out to round figures \$3.3 million to cover, not only the operation of the ship, but also maintain the nuclear group in Washington headquarters.

Senator BARTLETT. Each year since the *Savannah* has been operated, the operating funds have come from the research and development pocket; right?

Mr. GULICK. Yes, sir.

Senator BARTLETT. You said in your statement that the amount requested by way of authorization would provide for construction of 10 new replacement vessels. And you told us that these would be divided between container ships and standard cargo carriers. Have you any idea of what that division will be?

Mr. GULICK. We do not have a firm—that is, fully agreed upon and signed—contract type of agreement. We are, however, thinking generally of, in addition to the 11 LASH already awarded, and the

one United States Line, three Lykes, five Farrel, and three APL ships contemplated for award through 1969, 10 ships due for American Export-Isbrandtsen Line which will have to go over to 1970 under budget restraints.

Senator BARTLETT. How will the division be between the container ship and the standard cargo ship in the program that you tentatively plan?

Mr. GULICK. The design of the United States Line ship is as a full container ship. The three Lykes ships are the sea barge carriers, also capable of carrying a large number of containers in lieu of barges. The five Farrel and three APL ships are also capable of larger container carriage, but also have some break bulk and some liquid cargoes.

By and large, I would say, Mr. Chairman, that the trend toward container ships in these designs was very, very strong.

Senator BARTLETT. Which is the more expensive to build, the container ship or the standard cargo?

Mr. GULICK. The total cost of the container ship exceeds the total cost of a conventional break bulk ship primarily because of the necessity of furnishing containers for the operation. Construction-wise, the container ship is normally a more simple variety to construct because of the lack of need for dividing the ship up into segregated holds, the simplicity of internal construction, and to a considerable extent the reduction of deadweight cargo gear required to operate the ship. This obviously depends upon whether the ship will be operated to an area that has sophisticated cargo-handling gear ashore or whether the ship must carry its own.

Senator BARTLETT. The Maritime Administration can and does subsidize the construction of containers; does it not?

Mr. GULICK. The Maritime Administration does only in the sense that the law permits the use of reserve funds, tax-free reserve funds, by the operators in the purchase of containers.

Senator BARTLETT. This subsidy does not come directly from the appropriated fund, then?

Mr. GULICK. It does not, sir.

Senator BARTLETT. Now, you indicated in your statement that the U.S. merchant marine is experiencing a terrific competition from foreign lines that have turned to container ships. Are many of the leading maritime nations of the world using the container-type ship?

Mr. GULICK. They are, indeed, Mr. Chairman. As of December 31, 1967, container ships under construction or on order of 1,000 gross tons and over which are being constructed in foreign yards total 69 ships.

Senator BARTLETT. What nation, if there is one nation to be named, launched the containerization program?

Mr. GULICK. Without question, the United States, Mr. Chairman.

Senator BARTLETT. And because of the bill passed by the Congress last year and signed into law by the President, no exact standards are required for size of containers; right?

Mr. GULICK. That is correct, sir.

Senator BARTLETT. Do you know, Mr. Gulick, whether any agency of the Government recommended to veto that bill?

Mr. GULICK. To my knowledge, no agency recommended a veto of the bill.

Senator BARTLETT. Well, since the United States started this, do we have a long headstart or not at the present time, regardless of the 69 ships now building in the use of container ships?

Mr. GULICK. At the present time, Mr. Chairman, we already have engaged in container ship services or at least committed to container ship operation between 1970 and 1972 some 61 ships. And this total is growing as new ships come into the picture.

We also have about—well, this is a total that is under construction—approximately one-third of the container ships under construction worldwide are U.S. container ships. That number, plus those we already have in operation, gives us a definite headstart in this direction.

Senator BARTLETT. The great gain here, as you related, lies to the fact that turnaround time has materially decreased; correct?

Mr. GULICK. Yes, sir. It really comes down, Mr. Chairman, to a matter of additional revenue. If a ship sits, and it does not move—I do not care whether it is in a shipyard getting refurbished, repaired, repainted, upgraded, or whether it is just waiting to get the cargo on board or off the ship—it is not making money.

The ratio between a large or medium container ship and a conventional C-5 or C-4 is rather astounding in that the container ship is so very much more productive. For example, a large container ship on a round trip has an annual carrying capacity of 38.7 billion cubic feet. A medium container ship, 24.1 billion. A conventional C-5, 18.3, a conventional C-4, 14.3.

Now, in terms of freight money, this is pretty interesting.

Senator BARTLETT. And important.

Mr. GULICK. And important; yes, sir.

Senator BARTLETT. In fixing essential trade routes under the Merchant Marine Act of 1936, the Maritime Administration establishes the number of minimum and maximum sailings.

Mr. GULICK. Yes, sir.

Senator BARTLETT. How long is that determination made?

Mr. GULICK. The contract with each operator specifies for each trade route which he serves the maximum and minimum number of sailings. The law, I believe, requires that the essentiality of trade routes and the servicing of the trade routes shall be reviewed, not more frequently than every year or maybe 2 years. In any event, our practice is to review the essentiality and the "min-max" sailing requirements not less than every 3 years at the most. It happens that the reviews are really more frequent than that because the operators themselves will come in and request adjustments to fit the needs of their business transactions. On one route, the sailings may be decreased because of a lack of cargo. On another route, there may be more cargo available. And we attempt to work with them to insure the best utilization of their fleet from a business point of view.

Senator BARTLETT. You told the committee that some operating subsidy payments initiated in 1956 are still pending. Is this because some of the issues have gone to court or because of inability of the operators to agree with the Government?

Mr. GULICK. Both, Mr. Chairman. We have several instances of litigation. We have some instances where the operator is appealing final

rates or is protesting under normal administrative procedures the computation of subsidizable costs.

I may say that over the last few years we have been very pleased to be able to wash out several of these old claims, and they are considerably less today than they have been in prior years.

Senator BARTLETT. Let us assume a case in which the Maritime Administration determined in 1956 that the operator should receive \$1 million, and the ultimate decision was that this figure should be raised to \$1.5 million and this later decision was made in fiscal year 1968. The operator does not get any interest for the years that have passed, does he?

Mr. GULICK. No, sir.

Senator BARTLETT. In broad general terms, would you nominate the research and development program of the Maritime Administration as having been useful and helpful and perhaps essential?

Mr. GULICK. I would, Mr. Chairman, not as much as perhaps we would like, but there have been certain accomplishments which are outstanding. We have several instances of this. The *Savannah* is obviously one of the prime examples. We have several others.

I will be glad to go through some of those if you would like, or we could furnish something for the record, whichever you prefer.

Senator BARTLETT. Furnish something for the record, if you will.

Mr. GULICK. Thank you, sir.

(The information requested follows:)

ACCOMPLISHMENTS OF MARITIME ADMINISTRATION RESEARCH AND DEVELOPMENT PROGRAM

MARINE PROPULSION POWER PLANT STUDIES

An integrated marine power plant design was developed which uses a single boiler per ship. This design was made available to industry which has used the information in a class of coastal tankers and a class of subsidized cargo ships (APL). Expected savings in the form of reduced initial purchase cost of a two boiler installation is approximately 20% or an estimated \$80,000 per ship. Expected reduction in installation cost is approximately 20% or an estimated \$20,000 per ship. Concept eliminated about \$20,000 to \$30,000 worth of combustion control equipment.

MARINE GAS TURBINE WASTE HEAT BOILER

A marine gas turbine waste heat boiler combination was developed, built and evaluated aboard a U.S. ship and was used in port to supply all steam and electric demands. This allowed for the main plant to be shut down for maintenance and repair. After completion of evaluation, the unit was installed at Kings Point (USMMA) to be used in training.

APL ship lines now have installed such gas turbines on their new ships in further support of their decision to go to one boiler power plants.

HYDROMECHANICS RESISTANCE AND PROPULSION

The bulbous bow was developed for the Mariner hull form with a reduction of resistance between nine and fourteen per cent or \$100,000/year operating cost reduction for a 25,000 SHP ship.

Research on hull form as covered in the publication "Influence of Ship Form on Seaworthiness" indicates that by changing the current U.S. practice of designing exclusively for "U" form bows to "V" form bows will reduce the annual \$2 million U.S. slamming damage bill by 40 to 60 per cent.

Research on contrarotating propellers has increased performance over the conventional propeller to the extent that one U.S. owner is planning to utilize the contrarotating propeller for a new ship to take advantage of this new technology. The projected savings is approximately \$70,000 to \$100,000.

AUTOMATED BOILER CONTROL

A system for a fully automatic boiler control acceptable to the regulatory groups and the American merchant marine has been installed and is being successfully operated on a Great Lakes ore ship, the WILLIAM G. MATHER. This is the first U.S. steamship to be certified by the U.S. Coast Guard for operation without firemen. Industry has applied the same system to several other ships. Potential savings: 3 men at \$36,000/year.

COURSE COMPUTER EQUIPMENT

A course computer to automatically determine ship course position as an aid to simplify navigation has been developed and is on the market for sale to industry. This resulted in a component capable of giving ship's position in periods between navigation fixes and thus improving ship operation. The prototype has since been installed at Kings Point (USMMA) for use in training.

LOOK-OUT ASSIST DEVICE

Prototype equipment for a Look-Out Assist Device has been developed and 97% detection ability has been achieved. This will reduce the number of ship casualties, related repair costs and help reduce ship manning.

SHIP CONTROL SYSTEM

A study has been completed on the use of bow thrusters and other devices to facilitate maneuvering. The report serves as a guide for the design and installation of such devices and results in greater ship productivity, improved ship operation and less need for tugs in docking.

RADAR DATA COMPUTER

A prototype for a Radar Data Computer was developed to track ten other ships from radar data and plot their degree of danger to ship's officers. It is expected that this will result in fewer ship casualties, related repair costs and some benefit in the Look-Out Assist area.

INFRA-RED OLEOMETER

A prototype instrument has been developed which will accurately detect, measure and record, under continuous sampling conditions, the quantity (ppm by volume) of oil in bilge and/or ballast overboard discharge. This will help reduce contamination of the seas and rivers and is in compliance with the International Maritime Consultive Organization (IMCO) Agreement.

HYDROFOIL SHIP

Construction and experimental operation of an oceangoing hydrofoil ship capable of operating in the open sea for extended periods of time at speeds up to 60 knots was achieved. The ship has attained speeds of 64 knots, has operated comfortably in 10 foot waves at 55 knots. As a direct result of the performance operations and the experience gained by industry, who contributed substantially to the experiment, at least six companies are actively building various sizes of hydrofoil craft for operation in this country and for export. The DENISON was transferred to the U.S. Navy, at their request, in 1965 for further experimental evaluation by them.

Senator BARTLETT. Now, you are going to refuel the *Savannah* next year?

Mr. GULICK. Yes, sir.

Senator BARTLETT. And this will be the first refueling in how long?

Mr. GULICK. The original refueling operation. She has had no refueling since she began her original operation.

Senator BARTLETT. And that was when?

Mr. GULICK. Please bear with me a moment, Mr. Chairman I have the information.

I believe she started her operations in either 1964 or 1965. Prior to that time, she had been engaged in 1963 in certain experimental type operations.

Senator BARTLETT. She started in 1963?

Mr. GULICK. 1963.

Senator BARTLETT. And has the art been refined so that the ship will be able to operate on its new refueling even longer than it has from the initial one?

Mr. GULICK. They had a choice, Mr. Chairman, of whether to attempt to develop a longer utilization core or whether to determine how long the original core with some upgrading or as the engineers term it, reshuffling, could last. It was determined that the latter would be the most important. Other cores, we know, are available and would probably offer longer life, but we do not know what the situation is with this original type of core. So that the refueling planned is to be a reshuffled core, and it will have a life of 2 additional years.

Senator BARTLETT. Is she getting pretty short on fuel now? Does she go and stop once in a while?

Mr. GULICK. She has not come to a halt yet, Mr. Chairman. We anticipate that her present fuel will be ample to run her until the latter part of 1968 calendar year, at which time she will then be going in for a refueling operation.

Senator BARTLETT. Obviously, the *Savannah* necessarily cost much more to build and place into operation than would have a conventional ship of the same size. Have any studies been made to determine in light of the fact that the fuel costs of the *Savannah* are entirely different from those of the conventional ship whether it is more economical to build and operate a conventionally fueled ship or a nuclear ship?

Mr. GULICK. At the present time, our informal studies—and as the chairman is aware, there has been no officially released study on this subject—indicate that on a ship-by-ship comparison, it is much cheaper to build the conventional-type ship. The indication is that only when nuclear ships are built in series and then only when the ships come up to in excess of 10 or 11 does the cost reduce to the point where the ships can be competitive with the conventional ship operating costs.

Senator BARTLETT. You are talking about the experiences gained during the life of the *Savannah*, not just the original construction?

Mr. GULICK. That is correct, sir.

Senator BARTLETT. Do you believe that we should continue in nuclear ship research and possibly or even probably build more, especially in view of the fact that so many improvements have been made since the *Savannah* was constructed?

Mr. GULICK. I have to say, Mr. Chairman, that this is a question which is heavily involved in the new merchant marine policy and no decision has been made on this point as yet.

Senator BARTLETT. Do you know how many ships in all, including those in the reserve fleet, are plying exclusively to and from South Vietnam in behalf of our military effort there?

Mr. GULICK. Mr. Chairman, I apologize, I did not get the first part of the question.

Senator BARTLETT. How many ships are we using, including those in the reserve fleet, to support our military efforts in South Vietnam?

Mr. GULICK. I have the information, Mr. Chairman. I will be glad to give you this.

There is, Mr. Chairman, a total of privately owned ships in operation to Vietnam of 180 broken down as follows: 39 are subsidized dry cargo ships under time charter; eight are nonsubsidized dry cargo ships owned by subsidized operators; 127 are dry cargo ships owned by nonsubsidized operators; six are tankers. I understand that in addition to this 180, there are approximately 47 other ships involved under different types of charters than a time charter.

And in addition to these, the ships from our reserve fleet at the moment total 148. In this operation, approximately five are in ready operational status and inactive. We broke out originally from the fleet a total of 172. We have now reduced the number to the 148 figure.

Senator BARTLETT. All right, Mr. Gulick, the committee will take a short recess and give you time to do whatever you want to do. And then we will hear from Mr. Hughes, Deputy Director of the Bureau of the Budget. And with your permission, you will then return.

Mr. GULICK. Thank you, sir.

(Whereupon, a short recess was taken.)

Senator BARTLETT. Mr. Hughes, at your pleasure.

STATEMENT OF PHILLIP S. HUGHES, DEPUTY DIRECTOR OF THE BUREAU OF THE BUDGET, WASHINGTON, D.C.

Mr. HUGHES. Thank you, Mr. Chairman.

I have a rather brief statement which I thought might be helpful. It reviews both the basic elements of the budget process and our particular action with respect to the Commerce Department budget and the Maritime Administration budget. It is perhaps 10 minutes long. It might be helpful if I read that if it is agreeable with you.

Senator BARTLETT. I wish you would.

Mr. HUGHES. Mr. Chairman and members of the committee, I appreciate the invitation to appear before this committee. My purpose here today will be to discuss the Bureau's role and the effect of its operations on the programs of the Maritime Administration, and to outline the principal elements of the budget process.

Because of the magnitude of the Federal budget, and the economic and political ramifications of policy decisions, each President has been intimately involved in the development of budget policy.

The Bureau of the Budget functions as a professional staff arm of the President. The President does not delegate to the Bureau the key decisions in budget preparation. He must participate in every important budget decision, and personally choose among alternatives presented to him on the programs and budgets of the various agencies.

The Bureau of the Budget has the task of subjecting all program proposals—regardless of their source—a certain review, evaluation, and analysis. The Council of Economic Advisers, and other Executive Office units, and the agencies themselves are involved in this process. Alternatives in terms of courses of action and funding levels are presented to the President. Detailed information and appraisals of each alternative are prepared, along with estimates of the likely costs and benefits of adopting each. In this manner, the Bureau of the Budget gathers all budget proposals together, subjects them to a critical re-

view, develops and analyzes alternative courses of action, and presents the alternatives to the President for decision in accordance with his overall budget policy.

In this review, we are expanding the use of a new system—"planning, programing, and budgeting system (PPB for short)"—which is designed to improve budget decisionmaking by: first, specifying program objectives more concretely and precisely; second, by the development of imaginative alternatives and indepth analytical study of these alternatives; and, third, by performance reporting and the comparison of systems costs with benefits or accomplishments.

In the course of the preparation of the budget, overall policy frequently must be modified as economic, military, social, or other factors are brought to bear with the passage of time. There must be a continuing process of evaluation and reevaluation of previous decisions. This activity is reflected in budget amendments, revised revenue projections, and other actions which must be taken to adapt Federal programs to their constantly changing environment.

The budget decisions reached by the President are those of an official responsible to the entire electorate. Thus, the budget is not ultimately a compilation of proposals by economists, management experts, budget analysts, or other specialists. Rather, it is the recommendation of the man, who more than anyone else, must represent all citizens and formulate a plan responsive to their needs as he views them.

Let us turn to a discussion of some of the factors of particular interest in arriving at budget policy. As I have already mentioned, prevailing economic conditions must have considerable impact on the President's budget policy. If the revenues and expenditures are carefully developed in the light of existing circumstances in the economy, the budget can be an effective device for achieving a balance between our economic goals of sound and full employment on the one hand, and stable prices on the other.

Budget policy does not stop with a determination of the most appropriate total for the entire budget. We must weigh the relative merits of each component program. We attempt to allocate dollars to the individual programs where their value appears to be greatest, in view of national objectives. The weighing and evaluation of demonstrable needs is therefore an important factor in the determination of budget policy.

Resource costs are of equal importance. Budget policy seeks to obtain the maximum output from a given input. Benefit-cost comparisons are helpful in evaluating and choosing between various alternatives. Such analyses are useful both in allocating between different programs and in determining the least expensive way of accomplishing a given objective.

Nearly every national goal is one to which there are several contributors—the National Government, other governments, the private sector of the economy. Accomplishment toward goals relating to nearly every objective you can name therefore involves cost sharing. The optimum formula for cost sharing is a problem of budget policy.

As you are no doubt aware, there have been many discussions over the past several months between the Executive and the Congress with respect to the fiscal problems we are faced with. At the time the 1969

budget was being developed back in August, the President sent a message to Congress on the state of the budget and the economy in which he indicated that the increasing budget deficits could cause: "a spiral of ruinous inflation"; "brutally higher interest rates"; unjust distribution of the war costs; and "a deterioration in our balance of payments." In the same message he presented an action program in which there were two basic elements—expenditure restraint, to which this administration is committed, and an increase in taxes which he requested of the Congress.

On August 10, 1967, the Director of the Bureau of the Budget communicated with each of the department and agency heads by letter setting forth the basic budget policies that would obtain for the fiscal year 1969 and providing for a planning figure which would guide in the preparation of the agencies' 1969 estimates. The Director's letter had been prepared after consultation with the President, the Secretary of the Treasury, and the Council of Economic Advisers with respect to overall budgetary matters. It stated that:

Federal expenditures for defense and non-defense purposes have been rising as the Government has striven to meet adequately our international commitments and the pressing needs of our people. As a result, the overall budget deficit for the fiscal year 1968 is going to be much higher than we would like. . . . Under these circumstances new obligatory authority and expenditures for both fiscal years 1968 and 1969 will have to be held to the lowest level consistent with the national interest.

On September 28, 1967, the Secretary of Commerce submitted his formal budget request for the Department for the fiscal year 1969, which included a request of \$379.1 million on an appropriation basis for the Maritime Administration. Meetings were then held with the acting Maritime administrator and Department staff to discuss the major program elements contained in the budget request. This was followed by subsequent meetings with the various program managers in the Maritime Administration to obtain more detailed explanations. As indicated earlier, this budget proposal together with those of the other departments and agencies, was subjected to a careful review and evaluation. Various alternatives were analyzed and presented to the Director at a formal Director's review meeting wherein the Director determines what he wishes to recommend to the President. Subsequent discussions with the Cabinet or agency head and his staff clarify differences and resolve all possible differences before the President is confronted with the decision. In the case of the Maritime Administration, the President approved \$355.9 million which was \$23.2 million less than the Department's request. This difference resulted principally from reductions in the estimate of the subsidy cost of ships to be built and the level of research on surface effects ships. The agency's initial estimate was conceived on the basis of construction of 10 large, highly automated and relatively expensive container ships. The funds provided in the budget assume that some of the 10 ships to be built will be operated on routes requiring smaller, less expensive ships. For the surface effects ship program, it was decided to continue research on component technology and related economic studies rather than initiate a prototype development program at this time.

In summary, while greater expenditures for the rehabilitation of the Nation's merchant fleet may be necessary in the future, with re-

spect to fiscal year 1969 several factors dictated continuing the programs generally at prior year levels:

(1) The overriding pressures of the current fiscal dilemma led the agency heads, the Director of the Bureau of the Budget, and the President to plan the budget in a very conservative fashion;

(2) In view of this fiscal dilemma, program priorities required holding most programs to levels lower than otherwise desirable;

(3) Specifically with respect to the Maritime Administration, holding generally to prior year levels was consistent with the long-term efforts of the Secretary of Transportation in behalf of the President, to develop a new maritime program through full discussions with all facets of the industry, Members of Congress, and with inputs from interested agencies in the administration.

That concludes my prepared statement, Mr. Chairman, and I would be pleased to respond to your questions.

Senator BARTLETT. Thank you, Mr. Hughes.

Let me ask if when a directive as to budget guidelines is sent to a Cabinet officer, it is general in nature or whether it sets up guidelines for each agency within that particular Department?

Mr. HUGHES. The former is the case, Mr. Chairman. The budget process in the larger agencies varies somewhat from year to year, but normally involves the establishment of target figures for the agencies. These are not firm ceilings in the sense that they cannot be exceeded, but represent an objective consistent with overall budget levels that the President is seeking to attain and maintain. These figures are given to the agency on an agencywide basis and are distributed within the agency as the agency head may propose.

Senator BARTLETT. He can up the requested appropriation for one bureau or reduce it within the general framework?

Mr. HUGHES. That is correct.

Also, Mr. Chairman, I think it is fair to say a target is a target. And if he exceeds the target or if he feels it is essential to exceed the target, he may come back with a recommendation to do that, but at the same time must prepare a budget and a distribution of expenses which will be within the target figure.

Senator BARTLETT. How many people are there in the Bureau of the Budget?

Mr. HUGHES. There are roughly 500 people, Mr. Chairman. I would say perhaps 300 to 350 professionals, largely budget analysts.

Senator BARTLETT. When was the Bureau established?

Mr. HUGHES. It was established in the Treasury Department in 1921, was transferred to the Executive Office of the President in 1939.

Senator BARTLETT. What is the size of the budget this year?

Mr. HUGHES. \$186.1 billion.

Senator BARTLETT. How in the world could 350 professionals possibly evaluate the need for each department in light of the terrific amount of money in the aggregate? I must say that I put the same question to myself frequently about the Appropriations Committees of the Congress.

Mr. HUGHES. Well, I think that is a very legitimate question, Mr. Chairman. I can describe our technique in very general terms.

First of all, we do, within the limits of our time and ability, try and become as expert as we can in various program areas. As kind

of a generalization, also, we are about one deep in terms of specialists in the major program areas of the Government.

There happen to be, incidentally, about three people who are involved to some extent in the Maritime Administration budget. One of them is, in effect, the Maritime Administration specialist. The others work on other programs as well. But beyond acquiring the expertise that we can, if we are able and industrious and as we acquire experience, our approach is to probe, to challenge, the agency and the program people within the agencies, to test the reasoning behind the budget requests that they have made, to explore alternatives, to get them to list their own priorities and their own alternatives, so that they, who are the acknowledged experts in the various program areas, have to make sure that they have thought through their problem. In the same way, they help us to think through our problem which is the wise allocation of resources. So we use a combination of the information and expertise which we can accumulate, their expertise, and our general responsibility to make priority choices with their advice to enable us to distribute the budgetary pain as equitably as we can within a given agency and within the Government at large.

Senator BARTLETT. Now, the need for military funds has increased terrifically within the last few years. And from what we read, the Bureau of the Budget did not pass favorably upon every request from the Department of Defense. But it seems to me in this particular field where all these billions are concerned that you would have to have a staff of hundreds alone to make a precise determination, if such could be made, as to the positive need for any given request.

Mr. HUGHES. Well, I certainly do not want to, at this point, make a pitch for more Bureau of the Budget staff. We think we do fairly well in acquiring specialization and some degree of expertise within particular areas of the budget, sufficient expertise to ask the right questions of the agencies and perhaps sufficient expertise to enable us to evaluate somewhat the quality of the answers that we get from agency staff. We do the same kind of job, make the same challenges, and try and apply the same tests in the military defense area as we do in other areas of the budget. And I think at least as a generalization, our capacity to sort out the truth as best we can arrive at it, to arrive at priorities as among and between agencies, it is fairly general; that is, I do not think that we are particularly more or less capable over a period of time in some areas of the budget than we are in others.

Senator BARTLETT. Do your people go out into the field?

Mr. HUGHES. Yes; they do.

Senator BARTLETT. I am going to display a colossal ignorance here and you are the man I am going to put the question to in public, although I guess I should not—I should find out privately, and I should have known long before now. In the early days of the Republic, when the Congress appropriated \$1,000 for whatever it might have been, was there the power at that time within the executive department to withhold the spending of any part of that \$1,000?

Mr. HUGHES. The short answer, Mr. Chairman, is "Yes." And if you would like, I will try and dig up some for instances from fairly ancient history. I am not able to cite them offhand, but I have a fairly clear recollection that in the days of, if not Washington, Jefferson, say, there were some of the same kinds of argument between the executive

and legislative as there are today in that the President did not spend money which the Congress appropriated.

Now, that is a recollection, and I would like to have an opportunity to check it.

Senator BARTLETT. I will not put you to that. You have answered "Yes." My civic books were not very good or maybe they did not deal with it at all.

In consideration of the maritime budget, Mr. Hughes, is maritime considered a defense or nondefense expenditure?

Mr. HUGHES. The Bureau of the Budget deals with the maritime budget as a part of the work done by a division of the Bureau called the Economic, Science, and Technology Programs Division, which is separate from the National Security Programs Division which deals with the Department of Defense.

Senator BARTLETT. Now, by way of establishing the clear fact that if unhappily some other emergency requiring our intervention should arise in the world, we simply would not have the fleet capacity to transport the needed supplies to a distant part of the world or very close part of the world, I assume this was taken into consideration in determining the size of this year's budget?

Mr. HUGHES. It was, Mr. Chairman.

Senator BARTLETT. Is there not a dreadful fear on the part of the executive branch that there might be an involvement? Where would we be then?

Mr. HUGHES. Well, first of all, the likelihood of such an event is certainly a matter of judgment.

Secondly, our capacity to meet the event through some combination of transport, involving the United States and friendly nations, in some fashion, or perhaps Department of Defense transport, is also a matter of judgment. I am not aware that the Department of Defense has expressed concern.

Senator BARTLETT. No; it has not. I can state that most affirmatively and decidedly. It has not. In fact, a very high official of that Department, to the best of my recollection, and it is pretty vivid in this instance, told the world not too long ago that aircraft could supply the operation in Vietnam. In this instance, he was over 90 percent wrong—a long shot over 90 percent. And, of course, foreign vessels might or might not be available to us. We simply do not know, Mr. Hughes.

And we realize the difficulties facing the administration this year, the huge budget, the deficit, all the dangers that flow from a deficit of the size projected. We know that all of us must take account of these very great dangers, but we have another duty, too. And insofar as this subcommittee is concerned, that duty lies, not only in building up the American merchant marine so that our commercial interests may be bettered—we now carry, I think, something less than 7 percent of our cargoes—but so that we will have suitable ships to aid the military. And it is a question of judgment in these matters, of course.

But in this connection, one statement in your presentation caused me considerable apprehension. That is on page 6 where you said, and I quote:

In summary, while greater expenditures for the rehabilitation of the Nation's merchant fleet may be necessary in the future, with respect to fiscal year 1969 several factors dictated continuing the programs generally at prior year levels.

I have two concerns there. One relates to the words "may be." This would imply on the part of the Bureau of the Budget, it seems clear to me, less than a full belief that this program will positively be necessary. Would you care to comment on that?

Mr. HUGHES. Well, the "may be necessary" was with respect to greater expenditures, the possibility of greater expenditures. And I guess the "may be necessary" reflects the normal Bureau of the Budget caution with respect to commitments for future years. I think the Secretary of Transportation, Mr. Boyd, in various public statements has in one way or another essentially committed this administration to a larger program in dollar terms than that now being proposed by the administration subject to the development of a program which is viable and practical.

So I think insofar as the "may be necessary" is concerned, the administration has in effect indicated quite clearly its support for higher expenditures, assuming a suitable program can be developed.

Senator BARTLETT. Now, let me turn to the final words in that sentence, Mr. Hughes, which I just quoted. You said that the programs generally speaking would be continued under the budget request at prior year authorizations. And I had thought that this budget request represented a very considerable slippage.

Mr. HUGHES. You mean for the maritime program?

Senator BARTLETT. Yes.

Mr. HUGHES. No. We regard the new appropriation figures, together with carryover balances, as providing for a continued level of construction at essentially the rates prevailing in the current fiscal year and in recent fiscal years.

Senator BARTLETT. Mr. Gulick, if I may, did you tell us that the carryover was frozen?

Mr. GULICK. The carryover, Mr. Chairman, as represented by the President's budget message shows a carryover from 1968 into 1969 of \$103.3 million; from 1969 into 1970 in round figures, \$101 million. This means that as far as we are concerned, we are not to take this amount of money into our spending plans. The President has said he wants to carry it over.

Senator BARTLETT. It started with Thomas Jefferson.

Now, Mr. Hughes—

Mr. HUGHES. Mr. Chairman, if I could—am I right, Mr. Gulick, the program level in 1969 is generally speaking, at the level of the 1968 program?

Mr. GULICK. 1969, including the carryover, would be on a comparable level with prior years' dollars. Now, of course, the number of ships is something else because we are now building more sophisticated and higher cost ships. So dollarwise, I think it fair to say that Mr. Hughes is quite correct that the level is about the same.

I prefer the view, Mr. Chairman, that the action of the 1969 budget recommendation means simply that we have slipped our construction program forward 1 year.

Senator BARTLETT. Well, let us look at the figures. The figures demonstrate that the budget approved for this fiscal year is \$143 million for construction, and next year \$119 million. Now, let us acknowledge there is a carryover frozen at the moment. But, nevertheless, by recollection is that you told us yesterday, Mr. Gulick, that even if it were

unfrozen, we are going to be behind schedule in rehabilitation and modernization of the fleet; did you not?

Mr. GULICK. Well, Mr. Chairman, we have not presented a budget in any previous year to my knowledge that would take care of all of the contract commitments for replacement ships when due.

Senator BARTLETT. Thank you, Mr. Gulick.

Mr. GULICK. Thank you.

Senator BARTLETT. Now, Mr. Hughes, you may have information relating to the question I am going to ask you or you may not. And if you do not, I will put it to Mr. Gulick or Mr. Imhoff.

It is a well-known secret that a few weeks ago, the administration was within hours of submitting to Congress a maritime program calling for (1) \$300 million per year for 5 years for ship construction;

(2) Expanding operating subsidy to additional liner companies and dry bulk operators;

(3) \$25 million a year for research and development; and

(4) A nuclear ship program.

And, naturally, the bill which we are considering now is altogether inconsistent with the program that I just outlined. Do you know what caused this abrupt change in policy? Because to the best of our information, it was abrupt.

Mr. HUGHES. The short answer, Mr. Chairman, is I do not. I know the administration collectively, and the Bureau of the Budget, in some of the earlier stages worked a great deal in an effort to develop a new merchant marine maritime construction program, and we were collectively hopeful from time to time that these efforts would bear fruit. But I am not familiar with the circumstances which have precluded the presentation of that program to the Congress.

Senator BARTLETT. Neither am I. That is why I am curious.

Now, we have been told, Mr. Hughes, by the Maritime Administration, no less, that the requested fiscal 1969 maritime budget is merely a holding action and inadequate to promote the merchant marine as required by the 1936 act. We have also learned that our reserve fleet is seriously depleted, and by 1971, we will have only 37 overaged cargo vessels left. This undoubtedly detracts from our defense and economic strength. And my view is that this situation is deserving of and must have greater budget priority.

Apparently the feeling I expressed is not shared downtown.

Mr. HUGHES. Well, I think, Mr. Chairman, all I could comment is that I do know the Administration has put in a good deal of effort on the development of a new and expanded maritime program and policy. But as you pointed out, those efforts have not borne fruit and the budget level, I guess, is to an extent at least a reflection of that fact. Secretary Boyd has pointed out the concern of the Administration with respect to the development of a more enlightened, more modern, more viable policy. And those efforts and those concerns just have not produced a program that meets the various tests that are necessary.

Senator BARTLETT. I think I should offer a word of protection for our friends in the Maritime Administration. I just quoted them, and they did not volunteer this information. It was dredged out of them.

What I mean to say by that is they did not come up here and denounce the Administration.

Mr. HUGHES. We are not mad at them.

Senator BARTLETT. Do you care to answer this question, Mr. Hughes; if not, skip it: Do you think the pending bill is sufficient in amount of authorized funds to promote an adequate merchant marine for defense and to carry a more substantial portion of our waterborne commerce?

Mr. HUGHES. I guess I am not qualified, really, to answer that question. I think I have already indicated that the 1969 budget level was essentially, in dollar terms, a maintenance of program levels. You indicated that Mr. Gulick and the Maritime Administration people characterized the 1969 budget as a holding action. I think these may be different terms for the same thing. The language, I take it, you were reading is from the 1936 act and the consistency of the administration recommendation with that language is something I think the committee and the Congress will have to pass on. We are, in effect, maintaining a whole range of programs in, let us say, relatively level or even a cutback position vis-a-vis 1968, all of these to some extent contrary to the intent, I am sure, of the authorizing legislation.

This is not a particularly happy position for the Administration or for that matter, I guess, for the Budget Bureau to be in. But as the President has seen the needs of the times, it has required that kind of action, even in programs that the Administration has a very big stake in, a very deep commitment to.

Senator BARTLETT. Let us turn to that part of your statement relating to congressional judgment. The House Merchant Marine and Fisheries Committee has already pronounced judgment. It has reported the bill much in excess in terms of dollars than that recommended by the Administration. And what if this initial congressional judgment should be carried through by the Senate Committee and the Senate and the House and by the Appropriations Committees and by subsequent House and Senate action, would this be a futile exercise? Would the ghost of Thomas Jefferson arise to haunt us?

Mr. HUGHES. Well, several points, I think, Mr. Chairman.

First of all, this is authorizing legislation and not appropriation legislation. I certainly would not characterize action, whether it be authorizing or appropriation action, as futile if it represented the action of the full Congress. It would be a pretty clear reflection of congressional intent and purpose with respect to authorizing levels. I think to carry that expression of intent further along would necessitate some kind of appropriation action, obviously either in support of or contrary to the Administration's recommendation. And what the President would do then, I certainly do not know. That is, if the appropriation actions by the Congress supported the authorization action, I do not know what the President's action would be.

Senator BARTLETT. You have referred more than once to the appropriation action, and I sense that you apprehend even more than I do that certain groups having to do with appropriations are even more anxious to cut the budget than is the President.

Mr. HUGHES. It sounds that way at times, Mr. Chairman.

Senator BARTLETT. Thank you, Mr. Hughes.

Do you have any questions, Mr. Barer?

Mr. BARER. Mr. Hughes, you indicated in your statement that in August of 1967, the Bureau of the Budget sent to the Department of Commerce certain guidelines for preparation of their budget, including the budget of the Maritime Administration.

Mr. HUGHES. Yes.

Mr. BARER. Did the Department of Commerce budget recommendation fall within those guidelines?

Mr. HUGHES. Yes; it did.

Mr. BARER. If that is the case, why was the Maritime budget cut further by the Bureau of the Budget?

Mr. HUGHES. The target figures, the guidelines, are not minimums. They are simply target figures designed to get the overall budget level as nearly as possible within the total that the President regards as desirable. It is customary, standard practice, as we review the budget, to endeavor to make further budget reductions where we think it is desirable and wise to do so. And this action reflected that kind of judgment.

I guess I could add that the Commerce Department budget was not the only one that ended up lower than the target figures.

Mr. BARER. Now, in response to an earlier question by Senator Bartlett, you indicated the fact that our reserve fleet was seriously depleted and the mandate of the 1936 act that we should have a U.S.-owned and operated flag fleet capable of carrying a substantial portion of our commerce and to serve as a defense auxiliary, these were factors that were considered by the Bureau of the Budget in arriving at a budget level for the Maritime Administration. I also got the impression—I may be incorrect that another factor that entered into the budget determination was the fact that if an emergency situation did arise, there was available the option of chartering foreign flag vessels of, I think you used the term, “friendly nations.”

In response to a later question, you said another factor that enters into the Bureau of the Budget's consideration is the factor of congressional judgment, congressional intent. If the Merchant Marine Act of 1936 evidences clear intent by Congress to have a strong U.S.-flag fleet to carry a substantial portion of its commerce and, of course, at the time the act was passed, we were carrying about 30 percent—there was concern that that was insufficient—and to serve as a defense auxiliary, and if that law is still on the books and the Administration has never suggested to Congress that it be removed from the books and Congress has in just this last session of Congress strongly indicated in several ways its concerns in those purposes of the 1936 act, and inasmuch the 1904 act relating to the carriage of military cargo says that all military cargo should be carried on U.S. vessels which has been read into that the exception to the extent they are available, taking all these factors together, it is quite clear that Congress feels there should be utilization of the U.S.-flag fleet. And yet, you consider the factor of chartering foreign-flag vessels in case of military emergency. How is that consistent with the clear congressional judgment?

Mr. HUGHES. Well, I think a question arises as how, when and where the Congress expresses its intent with respect to ship construction versus chartering, for instance. I think I would agree with the implication of your question that the 1969 budget recommendations for Maritime Administration are at a lower level than is implied by the 1936 act in light of Mr. Gulick's comment. I think, however, the statement of policy in the 1936 act must be looked at in the light of the fact that that act was passed 30 years plus ago, that there has been a great deal of consideration, not just within the Administration, but within the in-

dustry and within the Congress in various amendments to the act. There has been developed subsequent to that some different concepts for defense, and defense transport that affect the situation.

So that I guess what I am saying in summary is that the statement of policy in the 1936 act must be evaluated in the light of developments since that time, including appropriation actions year by year and these other implicit modifications of the policy that is expressed in the 1936 act.

I think it would be foolish to argue that looked at all by itself, we are doing precisely what the 1936 act says. On the other hand, it is quite clear that the Congress has not done in subsequent years what the 1936 act said either, and these must be regarded as subsequent indications of congressional policy as well as Administration proposal and policy.

Mr. BARER. Are you really saying that since the act became law, there have been substantial factors affecting the policy declaration therein that makes compliance with the clear language of the law perhaps not appropriate.

Mr. HUGHES. Yes. That is a little blunter statement and a little blunter response than is politic, but I think that is accurate.

Mr. BARER. I am sure the Bureau of the Budget is concerned with the problem of balance of payments, is that correct?

Mr. HUGHES. Yes.

Mr. BARER. Was that a factor taken into consideration in development of the Maritime Administration budget?

Mr. HUGHES. It certainly was.

Mr. BARER. Was President Johnson's statement of, I guess, about 3 years ago—he stated, and I am not sure I can quote it, but I think he said, even at its present level, the merchant marine earns or conserves over \$1 billion a year in the balance of payments. And, of course, we were carrying more cargo then than we are now, somewhere over 7 percent. Was that statement taken into consideration?

Mr. HUGHES. Surely. The factors which affect the balance of payments, of course, are very complex. You have to buy in order to sell, pretty obviously. And the net effect of any single act like greater carriage in American ships of American goods or foreign goods, for that matter, the net effect of that on the balance of payments is a pretty complex determination. But certainly, the potential balance-of-payments savings were pretty carefully weighed against the U.S. budget costs and U.S. program policy impact of an expanded merchant marine program.

Mr. BARER. You indicated that the relationship between shipping on U.S.-flag ships versus foreign-flag ships and the impact of that on the balance of payments was very complex. And I am sure it is, but could you give us a general statement as to the Bureau of the Budget's policy or judgment as to whether the utilization of foreign-flag vessels is detrimental or advantageous to our balance of payments?

Mr. HUGHES. I would like to think about the question a little, get a little help on it, and amplify this for the record.

I think, generally speaking, that there would be a net gain in balance of payments from a larger merchant marine and, therefore, more substantial rendering of services both for the carriage of our goods and carriage of other countries' goods. But the gain here is by

no means 100 percent, was the point I was trying to make and for a variety of reasons. And the gain must be weighed against the very substantial cost in domestic budget terms and in economic effect of a policy decision to construct additional ships and to expand the merchant marine.

I would like to expand that comment in the record.

Senator BARTLETT. It will be permitted.

(Further information follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., April 17, 1968.

Hon. E. L. BARTLETT,
Chairman, Committee on Commerce,
U.S. Senate,
New Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: During the course of my testimony before your Committee on April 10, 1968, with respect to S. 3016, I indicated that I would expand my comments in regard to the impact of an expanded U.S. Merchant Marine on the balance-of-payments. In addition to my response appearing in the transcript, I would like to add the following for the record.

In considering the U.S. flag merchant marine and its impact on the balance-of-payments there are many factors that must be borne in mind. Among them is the fact that we do not control the movement of our foreign trade, and therefore the exporter or importer is free to choose the carrier of his goods. For this reason, we cannot say that more U.S. flag capacity automatically means a one-for-one substitution in the foreign trade. Secondly, an increase in freight carried by U.S. carriers, as a substitute for foreign carriers, would reduce the payments to foreigners for freight, but on the other hand, this saving would be offset to a considerable extent by additional port expenditures abroad by U.S. ships and reduced port expenditures in the U.S. by foreign ships. Finally, balance-of-payments deficits, budget deficits, and inflationary pressures are not mutually exclusive problems. Thus, under existing subsidy programs, if we consider expanding the merchant marine as a means of reducing our balance-of-payments deficit, we must recognize that for every dollar of reduction we would be adding more than two dollars to our budgetary costs. The foregoing comments illustrate why we do not believe that the balance-of-payments argument provides the most compelling rationale in support of an expanded merchant marine. The Administration's commitment to the development of a new maritime program is based upon the need to provide a modern, competitive, viable merchant marine that will play a vital role in the future growth and prosperity of this nation.

Sincerely,

PHILLIP S. HUGHES,
Deputy Director.

Mr. BARER. That is a factor that you take into consideration—
Mr. HUGHES. It is.

Mr. BARER. In determining the budget?

Senator BARTLETT. Do you think we ought to scrap the 1963 act in light of what you said, Mr. Hughes?

Mr. HUGHES. Scrap is a harsh term, Mr. Chairman. It certainly seems to me that the Administration one way or another has made it clear that it thinks the 1936 act should be very substantially amended and that we ought to seek to support the merchant marine on somewhat different terms than the 1936 act and amendments authorized. We would like to see established a program which would more effectively encourage competition within the industry, both the construction and the operating industry, and which would in various ways accomplish an updating and a modernization of the merchant marine and of the activities that are associated with it.

Senator BARTLETT. Thank you.

Mr. HUGHES. Thank you, Mr. Chairman.

Senator BARTLETT. Mr. Gulick, do you and your partners care to return to the fray?

(Mr. Gulick, Mr. Davis, Mr. Heneghan, and Mr. Imhoff returned to the table.)

Senator BARTLETT. Let us turn to the Kings Point Academy.

Mr. GULICK. Yes, sir.

Senator BARTLETT. You told us that the objective of the program is to graduate 200 deck and engineering officers each year. Is that objective being met?

Mr. GULICK. The objective has been met fairly substantially. In 1965, we graduated 219; 1966, 194; 1967, 200; and in 1968, we estimate 184, a little slippage here, but this is by reason of dropouts and attrition and this sort of thing.

Senator BARTLETT. Do you have any notion of how many of these people stay in the merchant marine?

Mr. GULICK. We have some small indication, Mr. Chairman. And I say "small indication" because there is really no positive or error-free method of determining this. We get our information by sending out questionnaires. And on the basis of the returns, we get our estimates of those remaining in.

For instance, in 1963, the class was approximately 191. We got 128 questionnaires returned. And of those sailing in the merchant marine, Navy or Coast Guard, 60.2 percent, or 77 men. In industry ashore, 18 percent or 23 men. and for 1964 with a slightly higher return of questionnaires, 136 out of 191, we have a total in the seagoing side of 99, or 72.8 percent, 14 or 10.3 percent ashore. In 1965, the questionnaires jumped up to 183 returns out of 219 and showed that 180 men were at sea in either the merchant marine, the Navy or Coast Guard, a total of 98.4 percent, with only three men ashore.

In 1966, the return of the questionnaires was a little less than it had been previously—138 out of 194. We attribute this to the fact that so many of the men were at sea. And on the basis of these questionnaires returned, 100 percent were at sea. In 1967, out of 80 questionnaires returned, 100 percent were at sea.

Senator BARTLETT. It is fairly easy for a Kings Point graduate to receive a commission in the Coast Guard?

Mr. GULICK. I believe the Coast Guard is rather selective in this regard for the reason, and I am speaking not from any real expertise in this area, but my understanding is for the reason that their own Academy is so scheduled as far as graduates are concerned to supply most of the needs of the Coast Guard. In times of expansion, I assume they would reach out into other areas and take—I believe they have taken, in fact—some people who are Kings Point graduates into the Coast Guard.

Senator BARTLETT. As officers?

Mr. GULICK. As officers, yes, sir.

Senator BARTLETT. How much does it cost to maintain a cadet for 1 year in Kings Point?

Mr. GULICK. Today, the average cost per student is slightly in excess of \$5,000. The exact figure for 1967 was \$5,090.05—I think that is getting a little too specific—to graduate a student after 4 years train-

ing at Kings Point. This is an increase, interestingly enough, from 1960 to where the cost was \$3,611.

Senator BARTLETT. The dread blight of inflation has struck there, then, too.

Mr. GULICK. It certainly has.

The figures of \$5,000 and \$3,000 which I cited, Mr. Chairman, are the costs per year rather than the total cost to graduates, as I stated.

Senator BARTLETT. Does the Maritime Administration give these boys any spending money?

Mr. GULICK. We do not, sir. We supply them only with a uniform and textbook allowance. They, however, during their sea year, earn a seagoing salary. I believe the latest figure is somewhere around \$155 a month.

Senator BARTLETT. Thank you very much, Mr. Imhoff, for being here. We probably will have no more questions to put to you.

(Mr. Imhoff withdrew from the room.)

Let us turn to the State marine schools. You said there are five. The State, I assume, from what you said, builds the physical plant.

Mr. GULICK. Yes, sir. In each case the State schools are a part of the normal educational system of the State, maintained by State funds, and normal tuition costs as in the case of other colleges, supplemented by amounts contributed by the United States under the State Academy Training Act.

Senator BARTLETT. What proportion, if you know, of the yearly expenses are borne by the U.S. Government for each cadet? What percentage? I suppose it would differ from State to State?

Mr. GULICK. I do not have the percentage. I have some figures.

For the year 1967, in the California State Academy, the students paid \$198,270. The State contributed a little over half a million dollars, \$592,684. There were also miscellaneous receipts and certain school funds of \$6,020. The total Federal funds were \$281,293. The total operating costs for 1967 for the California Academy was \$1,078,267, which would be a contribution by the Federal Government of a little in excess of 25 percent.

Senator BARTLETT. Thank you.

In the aggregate, how many students do these five schools graduate every year now?

Mr. GULICK. The average is a little in excess of 400 students.

Senator BARTLETT. What are the total needs of the merchant marine for officers annually?

Mr. GULICK. The input of the State academies and the Federal Academy at Kings Point give us an input of approximately 600 officers per year. With our present level of shipping plus the ability of certain unlicensed seamen to come up through the hawsepipe and acquire their licenses on the basis of experience and their own training availabilities, we feel that the input now is sufficient. This does not take into consideration the fact that the average age in the maritime seagoing side of the industry is rather high and, undoubtedly, there will have to be a greater input in the event of any expansion of the American merchant marine.

Senator BARTLETT. How are boys appointed to Kings Point?

Mr. GULICK. The Federal Academy Act authorizes nominations by Members of Congress on the basis of population in the individual

States. Once nominated, the boys are examined physically, given a competitive scholastic examination, and their records are reviewed to determine their aptitude to the American merchant marine. On the basis of these criteria, a priority listing is established, and the young men are offered appointments on the basis of their standing.

In many instances, the applicant would have in addition filed for admission to other Federal academies or to other colleges. Not all who are offered appointments take them. This means that we then go down the list in order of attained rank to determine who gets the next appointment.

Senator BARTLETT. Typically, are there more applicants than openings?

Mr. GULICK. Quite so. Yes, sir.

Senator BARTLETT. I would say it is a perfectly dreadful situation if the formula for appointment is based upon the population of a State. That leaves Alaska somewhat lagging in comparison with California and New York, for example.

Mr. GULICK. I may say, Mr. Chairman, that in some States—say, in the middle part of the country which has no great knowledge or concern with the merchant marine—it is quite customary for the Members of Congress to have some nominations left over. And in those instances, it is also quite customary to take care of boys from other States who cannot get in under their own State quota.

Senator BARTLETT. I read your message clearly.

As much as anyone else—and more, I suspect, than most—I dislike making comparisons in any field between the United States and the Soviet Union. But nevertheless, like most people do, I am going to come to that right now.

What nations rank in respect to the size of their fleets by way of tonnage and by way of being modern?

Mr. GULICK. As of February 23, Mr. Chairman, dealing with ocean-going vessels of 1,000 gross tons and over, but pinned to last June 30 in point of time, the rank in order of deadweight tonnage gave first place to Liberian ships with a total of 1,423, Norway second place with 1,371, the United Kingdom third with more ships, but less deadweight—the number of ships was 1,928. Fourth place was the United States if the Government-owned fleet is included.

Senator BARTLETT. Fifth, you said?

Mr. GULICK. Fourth place. Without the Government-owned fleet, the United States ranks fifth, behind Japan which would then move up to fourth. U.S.S.R. rates seventh today with 1,362 ships; interestingly enough, 4.4 percent of the total world deadweight tonnage.

Comparing the United States and the Soviet merchant fleets, the United States has as of last June 30 a total deadweight tonnage of 26,492,000 as opposed to the U.S.S.R. 10,369,000. Obviously, this 26 million for the United States includes both the privately owned and Government-owned fleet. If you take out the Government fleet, the United States has a private tonnage of 14,990,000 as opposed to the Soviets' 10 million.

In terms of percentage of the world total fleet, on a deadweight basis, the United States has 11.1 percent of the total; the Soviets 4.4. Eliminating the Government-owned fleet side, the United States has 6.3 as opposed to the Soviets' 4.4.

In terms of number of ships over 9,000 deadweight tons, which is getting up pretty close to the smallest ship in our category, the old standard Liberty type, the United States would have 1,783 ships as opposed to the Russians' 389, which is an indication to us that the Russian shipbuilding activity and the number of ships in their fleet as of June 30 last year was aimed at a smaller size ship than those we normally construct and bring into our fleet.

Senator BARTLETT. That includes our Government-owned fleet?

Mr. GULICK. The number includes the Government-owned fleet; yes, sir. The private fleet would be around 887 as opposed to the Soviets' 389.

Senator BARTLETT. Well, we have all read that the Soviet Union intends to become one of the leading, if not the leading, maritime powers in the world. Is it stepping up noticeably insofar as you know its shipbuilding operations at home and abroad and its ship operations?

Mr. GULICK. Our indication is that the Soviet is definitely expanding its fleet. But our information also is that it is not expanding at a rate which would make it overtake the United States, say, in the next 5 or 6 years. We believe that while the Soviets have a very active program of ship construction, they are not at the moment in a position where they will catch up with the United States and, as has been said, drive us out of business on the high seas.

We are not concerned, Mr. Chairman, in my agency primarily with an effort to get into a race with the Soviets. We are far more interested in building up our fleet even with smaller numbers to do a better job in the competitive world markets, to haul a greater percentage of our trade. And if we get the kind of competitive ships we think our industry should have, we think we can hold our own with the Soviets and with all the rest of the world.

Mr. BARER. Mr. Gulick, as I recall, 1 year ago, Lloyds Register of Shipping listed the United States as 16th in the level of merchant shipbuilding.

Mr. GULICK. Yes, sir.

Mr. BARER. Do you know how we are rated today as to level of shipbuilding?

Mr. GULICK. The last figure I have is as of June 30, 1967. And in that, we were 14th.

Mr. BARER. Do you know what level the Soviet Union is?

Mr. GULICK. The U.S.S.R. was third with the number of ships under construction in the Soviet Union at that time. This was for the Soviet 131 as opposed to the 45 building at that time in the United States.

Mr. BARER. Does the Soviet figure include vessels being constructed for the use of the Soviet Union outside of the Soviet shipbuilding yards? I understand they construct some in Norway and some other places.

Mr. GULICK. They do. This figure does not include the ships constructed for the Soviet Government outside of Soviet Russia.

Mr. BARER. The ranking of the Soviet Union as third in shipbuilding excludes, then, those ships that the Soviet Union is having built in foreign yards. Do you have any idea of what they would rank if those ships were brought into the competition or, to put it another way, approximately what percentage of their shipbuilding do they allocate to foreign construction?

Mr. GULICK. The Soviet, as of June 30, 1967, had a total of ships under construction or on order of 144.

Mr. BARER. What was the comparable figure for the United States?

Mr. GULICK. The United States had 45. Counting my figure of a little bit ago of 131 under construction in the Soviet Union, this means that the Soviets were ordering 313 ships from other countries.

Mr. BARER. It would be accurate to say, then, would it not, that the Soviet Union is presently building ships—and I use that term to include those that they are ordering outside their own shipyards—at a rate just about 10 times that of the United States?

Mr. GULICK. Yes. Yes. Now, whether all of these ships are the types that would be competitive with ours, I understand a good number of these are for their own domestic or their own area transportation systems where we, of course, do not go. I cannot say at the moment. We feel that rather than to get into a race with them, we should be devoting our energies to the building of the kind of fleet the United States requires for its purposes.

Senator BARTLETT. Well, we have to admit that Russia is on the march.

Mr. GULICK. They are, indeed, Mr. Chairman.

Senator BARTLETT. And they must have a very modern fleet in comparison with ours. Would you agree with that?

Mr. GULICK. The ships which they are building for high seas world transport in our understanding are highly capable ships. I would agree.

Senator BARTLETT. And, of course, we are referring to a nation that used to be considered rather landlocked, although it was not literally at any time, of course.

Mr. Hughes had certain comments to make concerning the 1936 act. Would you care to advise us of your views regarding this?

Mr. GULICK. Mr. Chairman, I think the simplest and most factual answer I could give is that as I understand my operation in my particular segment of the Government, as long as the Merchant Marine Act of 1936 is on the books, it expresses the will, not only of the Congress, but of the people of the United States. And it is our duty to administer that act so as to insure the accomplishment of its objectives.

I have the feeling that Mr. Hughes was largely of the same opinion and was saying, and I have to agree with this, that in a time of tight money and many other demands, we are often not able to do as much as we would like to accomplish.

Senator BARTLETT. When you were giving us the relative figures for different countries, you included the U.S. reserve fleet. But from what you previously told us, I take it that we just have to cast that out entirely regarding tonnage except for that which may be available after the Southeast Asia adventure is concluded. So as of now, this is of no importance whatsoever.

Mr. GULICK. This poses a problem in several areas, too, Mr. Chairman. If we eliminate the reserve fleet from any consideration of the size of the American merchant marine, then it is quite possible that we raise problems of our membership on various world bodies dealing with the regulation of various shipping activities, ranging from safety to the various economic sides.

Senator BARTLETT. Our liner fleet is a subsidized part of our fleet with respect to construction and with respect to operation, is it not?

Mr. GULICK. Yes, sir.

Senator BARTLETT. Now, how do you rate our liner fleet in comparison with like vessels of other nations? In general terms, is it a good fleet, a bad fleet, or conservative or sort of an indifferent fleet?

Mr. GULICK. I was looking, Mr. Chairman, to see if I had a breakdown by types in comparison with the world fleet. I do not believe that I do. So I can—

Senator BARTLETT. Well, this is simply amazing. It is true that you have a big book in front of you, but this is the first time you have been unable to find something in it to give an answer.

Mr. GULICK. Thank you, Mr. Chairman.

I would, with your permission, like to give an answer from my own general knowledge. The U.S. liner fleet by and large, even considering the age of many of its ships, is in my judgment without peer anywhere in the world. And the new ships being built to serve our liner needs are without question the best which have ever been launched, both in terms of their competitive capacity, and the solid, safe construction that went into them is there.

Senator BARTLETT. Is there any other nation in the world that subsidizes the building or operation of their ships?

Mr. GULICK. To my knowledge, there is no other nation that does this directly except the Soviet Union which, of course, covers the total cost.

Senator BARTLETT. Some do it indirectly?

Mr. GULICK. My understanding is, and we have had some studies in this regard which indicate that there are indirect aids in the form of tax relief, low-interest loans, some aids in financing, this type of thing.

Senator BARTLETT. Well, that was the answer I thought you would make because truth would compel such an answer in respect to our liner fleet. And we can say there that we all realize the circumstances which make it necessary for the Government to subsidize the building of some of our ships.

In my opinion, this program ought to be expended. That is, however, for the moment neither here nor there. But where subsidies have been applied, they have worked very well and have enabled us to build up, you tell us, the finest liner fleet in the world, right?

Mr. GULICK. Yes, sir.

Senator BARTLETT. Well, I think we can conclude on that note.

Mr. GULICK. Thank you, Mr. Chairman.

Senator BARTLETT. If the Senate committee decides to go along with the House committee, if the House and Senate approve and the Appropriations Committees and the two bodies likewise do at later dates, we will expect you to be fighting downtown like tigers to maintain the full appropriation.

Thank you.

Mr. GULICK. Thank you, Mr. Chairman.

Senator BARTLETT. The hearing is adjourned, subject to the call of the Chair.

(Whereupon, at 12:28 p.m., the hearing adjourned.)