

INTERVIEW I

DATE: November 13, 1968

INTERVIEWEE: JAMES W. GULICK

INTERVIEWER: PAIGE E. MULHOLLAN

PLACE: Mr. Gulick's office in the GAO Building, Washington, D.C.

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M: Let's, as a way of beginning here, clarify your position. You are acting administrator of the Federal Maritime Administration which is an agency of the Department of Commerce.

G: Let's make a correction there, and drop the word "Federal."

M: Oh, just Maritime Administration. Fine.

G: That's it.

M: I'm not quite as exact as perhaps I ought to be on some of these titles. You were appointed to that position now when, sir?

G: July 1, 1966, by then-Commerce Secretary [John] Connor.

M: This is a position that's appointed by the secretary of commerce and not a presidential appointment.

G: Oh, no. The title of "acting administrator" is conferred by the secretary of commerce to evidence authority to operate the agency in all aspects until the permanent position of Maritime administrator is filled by a presidential appointment.

M: I see. So you held a position as an appointee of Secretary Connor who was then secretary of commerce.

G: And before that, starting in March 1962, I was appointed deputy maritime administrator by Secretary of Commerce Luther Hodges.

M: During that time, as you indicated a minute ago, you had not had direct relationship with Mr. Johnson. That is, he hadn't contacted you directly regarding the business of your administration.

G: That is correct.

M: You'd had the regular chain of command then through the Secretary of Commerce, whenever there has been any instruction involved of that type.

G: That's right.

M: Now, this agency, does it occupy any unusual relationship insofar as the Department of Commerce is concerned? Is it the same as any of the other operating divisions of Commerce, such as the Bureau of International Commerce--this type of thing--or is it a little bit different in some respects?

G: Well, I admire the tenor of your questions. You're getting to be a real expert on this, I can see.

M: This is my sixth this week. This has been a real full week.

G: We occupy an unusual position in the department's hierarchy for the simple reason that we have the largest budget in the Department of Commerce. We certainly do not have, probably, the largest number of employees. I think the Census Bureau alone would far surpass us on that. Number two, we are a little unusual in the Commerce organization in that we are dealing with a hot policy-operations area involving the Merchant Marine of the United States, which is never a quiet lake by any manner of means. And, from day to day, from either the congressional or the operations side--that is, management side, or the labor side, or the shipper side, or any one of a dozen other sides, problems can come up. The problems involving ships have to be solved, because ships cannot afford to sit; otherwise, the owner loses anywhere from four to six thousand dollars a day, just because the ship is sitting and eating its head off, not making any money.

M: One of the areas of problems that you didn't mention, which I'm sure you agree should be included, has been, at least in recent years, the matter simply of organization itself--where the Maritime Administration belongs, or where it's going to be in the future. I believe--when the Department of Transportation was created, was it not part of the administration policy to put the Maritime Administration in that new department?

G: This is right, but this is a fairly recent development. This was not something that has been a matter of contention for a long number of years. I would say, probably, it goes back about two-and-a-half to three years at the most.

M: I realize you were not the administrator at the time that I guess this came up originally, but does the Maritime Administration generally believe that it should be part of the Department of Transportation or not?

G: This is really a matter of asking for personal opinions. Once the Administration has taken a position, all of the argument, pro and con, has been concluded, and the agency is bound by the national determination as made by the President in submitting the proposed legislation to Congress.

Personally, I feel that, eventually, maritime and all transportation areas must be included under one umbrella, and the reason for this is very simple. Ever since World War I, when there were efforts to create a transportation grouping then under the Department of Commerce on up to the present time, the transportation industry has been a segmented group, each with its own form of transportation to mother, each with its own need of cargo to put on board that particular transportation for whatever run that transportation would carry it. But today more than ever transportation is becoming a unit--an integrated system--which embodies all the science of physical distribution of cargo and the name of the game today is "pipeline flow." Well, you can't have a whole slew of agencies making their own rules, attending to their own business, worshipping at their own particular altar of problems. You have to get all these together working towards the common goal of moving the cargo in the most efficient and economical way. This, in my judgment, can only be done if we are all in one cohesive group, but this

will not come to pass for a number of years for the very simple reason that too many individuals have specialized problems in various forms of transportation and these often create conflicts between different methods of transportation.

M: For example, in this case, the bill went up to Congress with the Maritime Administration included in DOT, and for various reasons including a considerable amount of public relations work by the unions, Congress removed it. Why would the unions object to the Maritime Administration being in the Department of Transportation?

G: I think there were two reasons. Substantively, under normal conditions, the unions would not object; however, the unions took this proposal as an excuse--a lever, if you please--to apply pressure on the Administration to get a Maritime ship construction program going. They in effect said, "No ships, no program; no movement of Maritime into DOT." The fact of the matter is the program, which came out from the White House, did not offer a large number of ships, certainly as large as the unions thought they should be.

M: So there was kind of a secondary campaign in that sense by the unions?

G: Definitely. Now what I mean, particularly, by there being a delay before all of the forms of transportation are in one house, goes simply to the point that, assuming Maritime had gone under DOT, you would have had in one agency the ship side; airlines which are now under FAA safety regulations; the St. Lawrence Seaway, which is a small piece of the action; the railroad side is as yet quite undefined--

M: And independent--

G: The truck side which is practically nonexistent in DOT, as it now stands today; and the biggest impact of all is the as yet completely independent regulatory side; i.e., ICC for rails and trucks, CAB for the air, and Federal Maritime Commission, the regulatory side of the maritime industry.

M: Let's get this straight. The Federal Maritime Commission, this is not the

agency in which you're involved? This is a different proposition entirely?

G: That's correct.

M: So you think until all those things can be harmonized, or brought together, as part of a single comprehensive program for getting all types of transportation together, you're likely not to be able to do it on a piecemeal basis as was attempted in the case of putting--

G: Well, we will undoubtedly proceed on a piecemeal basis. That's the way this government operates. We rarely, by radical surgery, upturn centuries of government procedure. We instead move it piece by piece and, then, eventually get everything in one package. In fact, that's the way all the government agencies and departments have been created.

M: As you can tell, if you read the organization book one time.

G: Definitely.

M: Then the Congress, in this case, went ahead and passed, I believe, a law did they not, making the Maritime Administration an independent agency?

G: They did.

M: And this law was vetoed by President Johnson.

G: And that was passed and submitted to the President by the Congress on exactly the same basis, that the unions refused to permit Maritime to be a part of DOT. "No program, so we'll go one step further; we not only don't want it in DOT; we want it independent."

M: Don't want it in Commerce either, for that matter.

G: Purely a power play, that's all.

M: Did the President, at the time he vetoed that act, make any indication to this agency as to why he did so and what his future plans were in regard to the Maritime Administration?

G: We recommended a veto message, which was subsequently used by the President with some slight changes, which laid the groundwork for the veto at the doorstep--"I have already recommended that this agency be in the Department of Transportation; I have not changed my mind."

M: Do you think that's still in the plans ultimately?

G: That's right.

M: Would that be the reason why Mr. Johnson has delayed naming an administrator--because he anticipates its being placed into a new cabinet level Department of Transportation?

G: This is the commonly assigned reason. Whether he has any other reasons or not, I don't know.

M: It probably would be a good reason at least.

G: And, in fact, this is so current that I believe in this morning's Journal of Commerce, this reason was again assigned exactly as you gave it.

M: Oh, really? Well, I haven't read this morning's Journal of Commerce. I wish I could keep that current on my preparation, but, as a matter of fact, I can't.

Is it correct to say that the big problem regarding the Merchant Marine and the Maritime Administration as its administrative agency--the question of the future of the Merchant Marine with the polls of opinion being from one side those who say, "We don't really need a Merchant Marine--abolish it and do without it"--and on the other side, presumably the union and shippers, who say, "We want more ships and more emphasis on American carriers," and then a middle position of those who think that we need to do something drastic in the way of remedying the problems of the Merchant Marine in order to make it more effective. Does this represent the three schools of opinion, or are there more?

G: I think you're close, but I think the orientation ought to be a little

different. The 1936 Merchant Marine Act expressed as the national thinking a declaration of policy on behalf of Congress, acceded to by the President's signature when it became public law, that there is a national need for adequate ships to carry a substantial part of our foreign trade, and to carry all of our domestic water-borne commerce. These two guidelines, of course, were based primarily upon the premise that the U.S. requires an adequate merchant marine to support the nation in time of national emergency. A typical example of that reasoning is the fact that today in excess of 96-97 per cent of all materiel support for the Southeast Asia operation goes by ship. If we would have to depend upon foreign flags for this, we would find ourselves leaning upon a very weak reed.

Now, you can break down that commercial side into the divisions which you gave. Roughly, I would put it this way. The economists feel that, strictly from the point of view of economic principles, since foreign ships can be built cheaper and operated cheaper because of lower wages for foreign seamen, it is automatically better to ship by foreign ships, because you don't have to, presumably, pay as much.

Number two, the economists say, "Since foreign nations, in many instances, depend upon their merchant marines as the earner of their balance of payments, we would always enjoy a steady supply of ships to serve our balance of payments needs." The other side of that coin focuses on the needs of the shipper, the manufacturer, the banker, the insurance company, for fast, dependable, efficient and cost-effective service. Obviously, both management and labor desire individual benefits they hope to gain from the American Merchant Marine. The nation, of course, is concerned primarily with a high degree of steady-state service that can be relied upon, whether there are international emergencies, or international problems, or any other condition which would interrupt the trade flow. A specific example today is the closing of the Suez Canal, and a need

for more and more tankers to go around the south of Africa to hit the Middle East oil fields.

Now, we today have gone towards selling American business as a whole--the entire business community from the shipper on up through the banks and insurance companies--on the idea that our national shipping policy should not be restricted to the mere provision of ships through the taxpayer burden of construction and operating subsidies so as to compete on an equal basis with foreign ships. Far from it! With the advent of the new inter-modal transportation systems, here is an opportunity to build a new form of transportation which can be supported by business profits without subsidy. The banks, and insurance companies, as well as others who are investors in American business, are quite interested in the profit motive.

M: But that's anticipating a continued government participation in the operation and construction.

G: But, perhaps, not necessarily the same type of participation that has taken place in the past; and this is, to that extent, in line with the President's program. He was hunting for an incentive subsidy system which could eventually permit the government to withdraw except in certain highly needed areas of support.

I would say that the unions' interest in the Merchant Marine is definitely a jobs interest. There is, obviously, a ship operator interest because this is their own business. These two areas have been involved in supporting the American Merchant Marine historically. But the shipper, the financial end, the insurance end, are all new emphases which have not heretofore been played upon nearly as strongly as they might have been. We are getting great interest from these areas in support of the American Merchant Marine. In fact, many of the current conglomerates are viewing the various shipping companies with great interest, and two of them at

least are expanding their empires to include shipping companies. American Export-Isbrandtsen has as part of its conglomerate structure a ship service outfit, American Export Lines; but the rest of the conglomerate structure behind it deals in all manner of things, including the fishing industry. Walter Kidde Company bought U.S. Lines, but Walter Kidde started out making fire extinguishers.

M: Which is hardly--well, it is related, I guess.

G: And they've built up here and there. They are in NASA space efforts; they've built electronic parts. Columbian Bronze, a part of their empire, builds propellers--there is, at least, that relationship to the ships.

M: But now what they're interested in is not the Merchant Marine in the traditional sense, but in a new--I've forgotten the word you used a while ago to describe it--but in a new form of transportation which presumably will be profitable on its own operation.

G: That is correct. It is called an intermodal transportation system.

M: What has to be done to change the position of the Merchant Marine from its former position, where it needed help?

G: Well, this is already being done, and the basic steps have been taken. There is now underway a transportation revolution, there's no other word to describe it, and this will not stop. It will continue on until a brand new ballgame comes out of it. The common denominator which has permitted this has been the advent of the standardized container. My agency sold the Department of Defense on the value of changing their container requirements from the long-standing eight-foot packing box concept to the ten-foot modules of the international container standards now adopted by many foreign countries. With a standardized container that can handled equally by truck, by air, by ships, by rails, then you have the mechanism for moving cargo rapidly from one point, inland in the United States, to another point, inland in another

continent, over a variety of transportation modes. And you pick that route and those modes which gets the cargo there in the shortest time and in the best condition.

M: And at the least cost, I presume.

G: And, eventually, this will rebound to the shipper's benefit by the least cost. In fact it already has in several areas today.

M: This is pretty far advanced--this containerization--

G: Oh, definitely. It's the new look in the water transportation area, and the first of the six ships U.S. Lines will have as full container ships moving containers from the United States to Europe went into service this June.

M: What had been the union position on this?

G: The union position on this is what you might well anticipate: "If the number of men required to load a ship is going to be reduced by the use of containers, we want a piece of the action."

M: And it is going to be reduced by the use of containers, I assume.

G: It will be radically reduced. It has been radically reduced.

M: Is this the program, or the kind of program, that got your predecessor, Mr. Johnson, into difficulties with the union?

G: Nick Johnson, you mean?

M: Yes, Nick Johnson, right.

G: No. Nick got into Duck with the unions, I would think--and there are varying views on this--but I think the clearest one is that he indicated that the Merchant Marine as a whole operation was highly suspect. Certainly he thought the unions were suspect because they had contributed highly to the high cost of transportation by water. He was accused of not coming out with a viable program and of being interested only in tearing down the Merchant Marine. And he was never able to persuade the unions that he had other thoughts in mind. And I can assure you he did have other thoughts.

He followed his script just exactly on that basis. He was using a ploy, and the only trouble was he was too dramatic. His accusations of waste, greed, and inefficiency gained him the antipathy of the unions, of the operators, and of others against his methods. He was dead. There was no way to rebuild him, and certainly the President wasn't going to step into the picture and say, "Now, I want you fellows to support my boy." This isn't the way it works.

M: This was a public relations problem in part, then?

G: Sure. It was largely a public relations problem.

M: Just his departure, then, didn't reverse necessarily the things he had in mind for the Maritime Administration?

G: Well, I wouldn't agree with that, in the sense that once Nick left, we were in quite a hiatus--a vacuum. We had no presidential appointee--

M: Does this hurt the agency, incidentally? This is not the only agency, by a long shot, which has been administered for long periods of time by someone who is acting. Even the Justice Department and places like this have done this under Mr. Johnson.

G: That's right.

M: Does it hurt the agency pretty badly not to have a presidential appointee?

G: This depends entirely--that's a real leading question. This depends entirely upon a variety of considerations. The person heading the agency can make it or break it, but he has a lot harder task when he does not have the pat on the back from the President which says, "This is my boy, now listen to him."

M: In other words, it makes it more difficult the job--

G: It makes it a great deal more difficult.

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M: Does it weaken it within your own department? Does it make it difficult for you to operate within the Commerce Department, for example? The other agencies have, perhaps, presidential appointees at their heads?

G: Again, this depends upon the person. I've been fortunate because, with my long government experience, I think I can hold my own with almost any presidential appointee, and we have been able to do this in the Commerce Department simply by knowing how to do the job.

M: But it might not have been that way.

G: It certainly might not have been that way.

Now one other thing is important here. No one man, no acting head of any government agency, in my book, can be successful without support from upstairs. And we've been very fortunate in having very firm support from the last three secretaries of commerce. John Connor, from the time he appointed me, gave me complete support, so I was accepted within the department; followed by Alexander Trowbridge, who pursued the same course; followed by the present secretary, C. R. Smith, who has been able to give us far greater support than any other secretary simply because he's a transportation man.

M: That's right! From the airlines, isn't he?

G: And he understands economy.

M: He hasn't been in very long, but I suppose he was here for budget time this year, wasn't he?

G: Oh, yes. Well, he has been in since about mid-spring, I guess, last year.

M: Have you been able to keep the kind of budget priority that you think necessary within the Commerce Department?

G: Without question.

M: Has it hurt all of the agencies within the Commerce Department to have had so many secretaries of commerce in the last period? There have been four under

Mr. Johnson.

G: Well, of course, we don't sympathize too much with our sister agencies in Commerce, because I think, since 1936, we have probably had somewhere around eighteen or nineteen administrators. And if heads have been changed in Commerce, we look at them and say, "We sympathize but we understand."

M: I see. You couldn't very well look on them with indifference, could you? Do those people who had argue--I think you called them economists awhile ago--and I believe in your study--agency history--you refer to Mr. McNamara--would he fall into this category?

G: No, Mr. McNamara has been rather an enigmatic figure in this whole thing. Few people understand what Secretary McNamara's true position was. It was taken completely out of context by those who were irritated with the administration, with Nick Johnson, with the Commerce Department, because they were trying to gain some kind of poker bluff support for the game they were playing to try to dredge up a Maritime program.

Mr. McNamara's position was simply this: he was interested only in the Merchant Marine from the point of view of the support it could give to the military in time of emergency. This got twisted out of context, and the way it came out was, "I don't give a damn for the Merchant Marine, and the only Merchant Marine we need, as a nation, is that which can carry my troops and my supplies." Well, that's quite different.

M: He never argued, then, going back to the 1936 law, that there wasn't this need for maintaining a Merchant fleet for times of national emergency?

G: Oh, he maintained that there was a need for this fleet, both the active and the inactive fleet; but he said he was not concerned with this fleet as a support of the civilian economy. He was concerned only with its support of the military side.

Now, today in DOT, certainly in the high levels of the Navy Department, I think you could find some change in this picture for the very simple reason that it is almost impossible to maintain a fleet of commercial-type ships with commercial-type seamen purely for military needs.

M: You can't mothball seamen for one thing.

G: That's exactly right. So the opinion is now shifting to the view that the Merchant Marine is essential as a commercial arm of the country's economy. This commercial arm, obviously, must be sufficient to serve the military in time of emergency. Please notice we're reversing it. We're putting commerce first, military needs second, on the theory that if you have a going Merchant fleet, you've got something to lean on in time of emergency. You don't have to worry about where the seamen are coming from to man the ships, and all this sort of thing. You can have the most beautiful reserve fleet of ships, the most modern, the most costly--a lot of them cost \$50,000 apiece--mothballed, so that you can break them out in three days, but you'll never man them.

M: You do administer the mothball fleet--the National Defense Reserve Fleet, is that what it's called?

G: The National Defense Reserve Fleet.

M: Is that being activated to support the Southeast Asian effort now?

G: We've broken out a total of one hundred and seventy-two ships from the reserve fleet, and are now at the bottom of the barrel.

M: And those ships have been adequate to the task, in spite of their age in some cases?

G: They have been adequate up to a point. The point is that there haven't been enough of them. There still has been a need for a large number of foreign-flag ships. In the berth liner, break-bulk type of transportation--this would be your liners and your berth operators--I think it's fair to say

that about half of the commercial fleet's capability in private operation has been used to support the Southeast Asia movement. So that you've got three sources--your reserve fleet, your private fleet, and foreign flags. And yet on top of the reserve fleet and the privately-owned ships which have been made available for carriage, there has still been a need for foreign flag carriers.

M: Why haven't you broken more out of mothballs?

G: We have no more to break out.

M: So the complete reserve fleet is used up then?

G: That's right.

M: Have you had difficulty in manning these that you have moved?

G: We have. And the only way we've been able to man them is by gaining the full cooperation of the labor union leaders to pressure their men to take jobs on ships which are really not the nicest in the world to sail on. You're talking now about making men serve on ships that are twenty, twenty-five years old.

M: World War II vintage.

G: World War II vintage. Your toilet facilities, your staterooms, your galley setups, are not nearly as nice as the newer ships--no air conditioning, rougher quarters, long stays in hot tropical areas. Nevertheless, the men have served, and there have been some delays, but by and large the service has been fantastic. The real test of the pudding is the delivery of the cargo in time to meet the military needs.

M: Well, then you're hoping, I assume, from what you've said that as these are retired at the end of the Vietnam difficulties, then you'll be able to take up the slack by the increased commercial use and the renewed emphasis on the commercial arm of it that you were talking about.

G: There will be an ever greater need for this. We started off breaking out a total of 172 ships. Of that number we're down to 144 presently in service. The others have been weeded out as being too costly, just not worth operating. Of those 144 now in service, only between 120 and 125 will be worth putting back into the fleet. Those 125 will only be good for service up to five years or more. After five years--between five and ten--you could probably knock that number in half, if not eliminate all of them, just on the pure cost of putting the ships back into operation. You keep a twenty-five-year-old automobile in operation, and you haven't got too much.

M: Or even a five-year-old automobile.

G: You've got to rebuild it. This is the situation with the ships.

M: So you're talking about the immediate needs for building a lot of ships.

G: There is an immediate need for an ongoing commercial program to build a commercial fleet which can serve both the commercial and military needs. This is what we're working on now.

M: Well, is it possible to give American builders the kind of incentive that can make them competitive, or might the answer be to allow foreign built ships to enter the American service--presumably the cheaper ships?

G: Now there's a big argument here on the question, shall we use foreign built ships to build up the American Merchant Marine. And there are points on either side of this argument. Automatically, most people would say, "Well, you don't have to buy airplanes which have been built in the United States, nor trucks, nor railroads--why ships?" Well, we have a large industrial capability for the manufacture of air frames, the same for locomotives, and definitely, the same for highway vehicles. We don't have to depend upon foreign manufacturing centers to turn these out. However, when the time of

war comes, if we do not have a shipbuilding capability, we have no way to double or triple or maybe go up by a power of three or four on the numbers of ships we need. Example, during World War II we built five thousand. At the beginning of World War II we probably had in service somewhere around six hundred.

M: So an 800 per cent increase in the fleet in five years.

G: That's a whale of an increase. Now if we don't have this capability, we might not get the ships.

M: In other words, this is a case where you're preserving for national defense purposes a plant.

G: National defense plays the largest part, but, again, there's another reason. There's no reason why shipbuilding in the United States cannot be as profitable and as efficient as the construction of automobiles or air frames. But it requires quite an investment of money to put the construction of ships on an assembly line basis.

M: This is possible--mass producing ships?

G: It is possible. If it isn't possible, several large industrial concerns in the United States have put their millions in the wrong basket. Litton Industries, which picked up Ingall's Shipyard in Pascagoula, Mississippi, got the state of Mississippi to put up some three million dollars, I think.

T*: I think it was closer to a hundred and fifty or a hundred million dollars.

G: Was it that high?

T: I think it was.

G: I have been advised that the state of Mississippi put up one hundred and thirty million dollars. They issued full faith and credit bonds. Litton will repay the principal and interest over a thirty-year period as rental for the property.

* John Tennant, public information officer of the Maritime Administration.

M: This was a grant from the state of Mississippi?

G: The state of Mississippi bought land, a large chunk of land, adjacent to Ingall's Shipyard, and they contracted with Ingall's to build them a new shipyard on this land which they then leased to Ingall's for the construction of new assembly-line-produced ships. Avondale, up around Baton Rouge, Louisiana, did it another way. They got a contract from the Navy for twenty-seven destroyer escorts in one single package. And with the proceeds, they acquired additional land and they built a new yard and are now turning out the Navy ships on a production-line schedule so that the next batch of ships, whether it's Navy or commercial, running through the same process can be constructed at cheaper costs than the ships constructed in the old yards.

Other yards are looking at these two, and are working it just about the same way. Two others, Sun in Pennsylvania, Maryland Shipbuilding in Baltimore, haven't gone quite this far, but they are specializing in single ship designs, and as they build more and more of those individual or single ship designs, they can come out with cheaper costs.

M: That's been one of difficulties in the past, I assume. Each ship has been a custom process, and this has prevented any of the cost-saving devices of standardization that the yards might otherwise have used up until now.

G: This is true, and it has grown up---it has gotten to be accepted because of this map on the wall behind us with all of the trade routes on it. Under the present system the steamship companies who contract with the government for subsidy payments in turn agree to two things. They agree to replace the ships on the routes at stated periods, but they also agree to serve certain routes and no others. This means that they build the ships for those particular services, and more and more customizing becomes an accepted norm for the construction of ships.

Well, our view today is that there should be no routes; that the ships should be in competition, one with another, on a free basis just like any other form of transportation. And that a form of family concepts of ships should be developed which would provide on the same general hull form a tanker, a bulk carrier, a break bulk ship, a container ship, and what have you; but no gingerbread, no chrome-plating, certainly no silver-plating--

M: Fins or flashing lights.

G: And cut out the fancies, and get down to what is really needed to make money.

M: So you feel then, I take it, that by the introduction of containerization processes, and so on, you can reduce the operating costs. And, by the introduction of mass production and other techniques--one design and so on--you can reduce the construction costs and make the American Merchant Marine successful, profitable, commercial enterprise without the operation and construction differentials that have been paid for the last--what, twenty-two years?

G: Definitely. There's no question about this. Not on every trade route, not in every trade area, but in some, yes. I'll give you a specific example. We just signed a contract with Lykes Steamship Company--a New Orleans outfit--for the construction of three ships at a cost of \$96,000,000 all told. They're the most expensive ships ever put together. These three ships, however, will substitute for seventeen conventional-type ships. There's your productivity right there.

M: What about the introduction of nuclear power? Does this work into this same thing, an attempt to cut costs?

G: Nuclear power now is on the fringes of the future. There is no concerted program underway to develop nuclear propulsion for ships apart from the nuclear ship Savannah which we have operated since it was constructed, and which has proved to be highly successful in demonstrating that nuclear propulsion is feasible. But the Savannah was never built to be an economically-efficient cargo-type ship. We need now a new program to develop a smaller more efficient, less costly reactor propulsion unit, and when that comes, then shipping will take a long jump into the future ahead of its foreign competition. In fact, if we don't get at this, foreign competition is going to beat us to it; because the Germans are already into this in a big way.

At present, we don't need nuclear propulsion to become an efficient, operating fleet. There are economies--propulsion machinery, operating techniques--that would outweigh the need for new propulsion units. Example: The same three ships we're talking about have conventional power. Well, even with conventional power they're still substituting for seventeen conventional ships so that the cost of the propulsion unit is less of a consideration in the overall profit picture than it was before. As foreign competition puts the squeeze on us, obviously we've got to find a way to get cheaper, more reliable, faster propulsion. In fact, that latter point is the most important of all. The ships of the future are apparently going to be not the rather slow seventeen-to-twenty-one knot type ships of the past few years, but will be high speed, express-type cargo ships, operating in a transportation pipeline which means they operate like a shuttle on a sewing machine, backwards and forward. And when that takes place, you need higher horsepowers which are beyond the capability of present propulsion systems to provide. We got up today to the twenty-five or thirty-five thousand

horsepower range, but the ships of the future are going to require seventy-five thousand and up.

M: Two or three times what we have now.

G: Nuclear power, as far as we can see now, is the only answer to that horsepower need.

M: One of the elements that is always mentioned as one in which the United States suffers a competitive disadvantage, particularly when you're comparing them with the foreign fleets, in addition to construction costs and the operating costs based primarily on labor, are the various regulatory practices of the United States, particularly in the realm of safety which, I presume, are more costly than those of some other countries. You've indicated what's being done about the other sources of competitive disadvantage--what can be done about this disadvantage?

G: This is not a disadvantage, in my judgment, even though the argument has been used by many people. I think the fact that the United States has the safest ships in the world is an essential plus in any new transportation system, particularly in an intermodal system.

It would be disastrous to a fully-integrated transportation system if the ships were to be the weakest link, so safety is a definite plus. The foreigners, in fact, are more and more coming to the U.S. standards so that eventually we can foresee that the foreign ships will be equally as safe as U.S. ships, for, let's say, exactly the same reasons.

Another point. The extra cost of safety in the construction of an American ship is, again, a small consideration if the overall productivity of the ship and the pay-back of profit is sufficient to cover that extra cost. Now that same principle applies also to the high costs of U.S.

crews onboard ship. We have no intention of saying to the American seamen, "Just because you're in the maritime sea-going profession, you're not entitled to the same standard of living as your land-going counterparts." And, in fact, when you have three ships which can substitute for seventeen conventional ships, the cost of the ships and the costs of their operation with the higher crew standards are not really very important.

Let me give you a dollar figure on this which might be interesting. When U.S. Lines put their first container ship into service in June, they said they expected to gross some six hundred thousand dollars on the voyage out and return with a pretty good load of containers. We told them that our figures showed that if they didn't make nine hundred thousand dollars, something was wrong with their bookkeeping. There was quite a little dispute between us, but when the facts and figures were in they grossed \$1,200,000 on the first voyage.

M: Just doubled their estimate and half-again doubled yours.

G: Since June they have averaged, on a full voyage out and in, nine hundred thousand dollars per ship. Now, with this amount of money, the higher cost of the container ship and the cost of the American crew, vis-a-vis foreign ships and foreign crew costs, becomes ever so much less of a consideration than it ever was before.

M: There's an obvious connection there.

G: The argument is made, "Well, the foreigners will eventually catch up." They will. And the profit spread between the foreign operator and the U.S. operator will still be there; the foreigner will make a little more money than the American will make, but the point is the American will still make enough money.

M: They'll still make enough to justify the investment.

- G: And the foreigner will have to come up with the hardest thing he has yet been faced with, and that is the heavy capital investment which will make his merchant marine capital-intensive. He is not today. Now, we are capital-intensive in our whole U.S. economy. We are applying this now to the shipping side, and the foreigners are finding it extremely difficult to come up with these large sums of money because they don't have sufficient government backing.
- M: The foreign governments have not backed their merchant marines like ours has?
- G: The foreigners do not have government backing for their merchant marines in the sense of direct subsidy payments. Today, they get their money to support foreign merchant marines from the common worldwide financial resources--Lebanon, Switzerland, etcetera. The only problem is that those boys require a 14 percent return on their money.
- M: You could get all kinds of investment in the United States if you could promise 14 percent, couldn't you?
- G: Isn't that great? The foreigners have just built a batch of new ships, because they believe in replacing their ships around every six years. Then they will take the ships that they are replacing out of service and put them into a second-hand ship market. Well, they, by and large, have today some pretty new ships, and they just can't see digging up more money now to immediately replace these ships, much less to spend a lot more per ship to come up with a unit which is competitive with those which are now being built for United States operations. So we say that the picture is far from a hopeless one. It really is, and should be called just what it is, the opportunity to create a new transportation operation which can be profitable, which can give the investors back a return on their investment. And if we can get this thing going, we will have the kind of merchant marine we should have, enough

to carry at least substantial portion of our cargo. And, in fact, very interesting here, if we could carry 35 per cent of our foreign trade in U. S. bottoms, we would have no international balance of payments deficit.

M: That much of our deficit is accounted for by payments to foreign shipping?

G: Correct.

M: Is it necessary--

G: Not that much of our deficit--the whole thing.

M: The whole deficit.

G: The whole thing.

M: In that connection, how important is it now, and how necessary is it going to be in the future to continue the cargo preference legislation, which kind of guarantees, I suppose, a market for American shipping?

G: Cargo preference is a convenient system to support obsolescence. This may sound very harsh, but it's true. If it were not for cargo preference, most of the independent operators who are completely dependent upon government cargo movements for their survival would be out of business. We say that cargo preference today, evil as it is--I'll strike evil, as uneconomic as it is is a better term--is necessary because it enables us to keep every ship we've got that floats; we are down that low in our shipping capability. And comes another emergency, if we don't have the ships, we're in trouble. But this does not say that cargo preference in its present form needs to be continued indefinitely. If we can come up with a program, and we think we can, which would provide ships without a great outpouring of government funds, then we see no reason why these newer ships, which could operate much more cheaply than the present ships, could not carry the government cargo in competition with foreign ships at lower rates

which would reduce the need for government support on cargo preference. We would have no intention of saying, "Cargo preference, in the sense of allocating or reserving cargoes for American ships, should be thrown out the window." There's nothing wrong with the principle that says, "We reserve certain types of cargo for American ships." If you stop there, there's nothing wrong with this. But when you say, "It must be reserved to American ships, notwithstanding the cost to the government and the taxpayer," then you're in an uneconomic area.

M: Which is the current situation, but hopefully not the permanent one.

G: This is the current situation, so this is what we're attempting to zero in on and treat. We don't want to throw out the baby with the bath water.

M: Now, this whole process of encouraging American shippers to be more efficient in their operations, more efficient in construction, and the whole business that's required to make them competitive--what can the Maritime Administration do, leaving subsidies aside? Is it mainly a matter of encouragement or information dissemination, this type of thing?

G: Well, at the moment, this is largely what we are doing because we're operating with handcuffs.

M: In what way now--handcuffs?

G: We are not permitted to devise and implement a new maritime program. This requires the approval, first, of the White House, and the White House submits it to Congress, and then Congress passes it, and again the White House blesses it with a signature. Then comes the problem of money to support it and you go through this thing again. The White House to the Congress, the Congress back to the White House, then eventually we get our money. It's a long, long road. All I'm saying is that we cannot, on our own here in this agency, devise and implement a new maritime program. It

requires a lot of concerted action to put this into being.

Coming up with the program even under Mr. Johnson's time, was not the easiest thing in the world because there were many special interests which had to be taken care of; you've already mentioned one, the union side. The programs which were proposed have come to naught for two reasons, and history will reveal this as a fact: one, the special interests were not taken care of in the way they wanted--

M: In other words, in formulating the program it was not done in such a way as to satisfy the interests--

G: In formulating the program. And number two, the program content was not the type of program that this nation requires.

M: Now, where does this break down? This program that's formulated that's inadequate? Is this White House?

G: The program which was sent up by the present administration to the Congress said, "We need only that number of ships required to support the military in time of emergency."

M: In other words, the McNamara philosophy was the program that went up?

G: That is it, right.

M: Contrary to the advice of this agency?

G: That is right. Now, you say contrary to the advice of this agency, but we had very little to say about this. The program was devised largely by the new Department of Transportation. This agency and the former Secretary of Commerce, John Connor, plugged hard originally for a commercial merchant marine which would support not only the commercial needs, but the needs of the military. This was not bought by the Bureau of the Budget or by the Department of Defense. We lost that battle. We're now back in plugging

for this all over again.

M: Now, you mean the program that went up to the Hill went up tailored by the Department of Transportation, which didn't include the Maritime Administration?

G: That's right.

M: One could hardly expect it to be the kind of program that you would have tailored over here, then. You mean there was no coordination between the Maritime Administration and the DOT regarding that program?

G: No, this was a DOT effort. They used a lot of our people, but our people were more or less required to furnish certain types of information, to implement certain policies, which had already been worked out. We did not agree with the original base for the program. This is no secret between the two agencies certainly, but it is not known publicly. Obviously, such a matter could not be given out for public consumption at this time because it's too close to the present administration.

But, the fact of the matter is that the program which was sent up was not a very good program. It had a false base. The industry, labor, and the Congress were quick to recognize this. They said, "We don't want that kind of program; we want a program which would really build up the merchant marine." The Congress won. They refused to pass the President's program. Now the only thing that was wrong with the President's program was its base.

M: The whole goal was short, is what you're saying.

G: Emphasizing the need to serve the military.

M: Defense versus Commerce.

G: Right. Now, what will come out of this thing in the future nobody knows. We have a new program which we have delivered to the Secretary of Commerce, and we are not at liberty to speak about it because, until he passes upon it,

it's his program.

M: Right. Did the White House work with you on this new program?

G: No, sir.

M: In other words, when their program failed--

G: It might surprise you to know that this program was devised exclusively over in this agency, but at the moment some bounces have been made over in the Department of Defense, certainly on the Navy side, and they buy this new concept. In other words, Defense is changing its views. We've won a battle there.

M: That helps. But the point is when their first program failed they didn't come to you and say, "What can we do?" There has just been sort of a vacuum since the failure of that program.

G: Oh, there was a vacuum. It was, I think, probably even more of a vacuum because at the time of the congressional defeat, we were already--

M: When was that incidentally, sir?

G: Just this last year.

M: In '67?

G: This present year.

M: '68.

G: Hearings were held in the spring, appearances were made before the Senate, before the House Merchant Marine Committee. Nobody, either in the House or in the Senate, introduced the legislation in the form which the President wanted. Not even one bill was introduced.

M: Was there White House manipulation of the bill on the Hill trying to get it through, or did they just let it go up there and suffer its own--?

G: They tried every way possible. Poor Alan Boyd, the DOT secretary, had to carry the brunt of the burden on this thing, but he had to do it pretty much on his

own and he lost.

M: So that will delay a program from getting passed for at least a year?

G: It will most certainly delay--it did delay that program, and any other program coming out would only be introduced in this coming Congress. And depending upon the complexity of the program, it would take perhaps a longer period of time. Nobody knows.

Both committee chairmen, [Edward A.] Garmatz (D, Md.) in the House, [Warren G.] Magnuson (Washington) in the Senate, introduced their own form of legislation which was, face it, largely the legislation the unions wanted.

M: Your program is somewhere--you say you can't mention it, I understand that--it's somewhere between the two, would you say?

G: No, sir.

M: It's entirely new?

G: Entirely new.

M: And, hopefully, it will reach the approval stage and then become public knowledge long before the material we're recording here is used.

G: It's a type of program, in fact, which uses private finances to construct the merchant marine with needed government support, but on a need basis, not with guaranteed payments such as the present system has--everybody getting the same amount of money without regard to their need for it. I go back to this North Atlantic container ship run. With ships making that much money, they don't need government support. It's just that simple. Well, okay, they would not get government support, but the guy who does need some pump priming would get it. But the fascinating part of this thing is that, at the moment, the program indicates to us that we don't need any more than the present level of government appropriations to supplement the private investment side of this thing; and this is quite a departure when you consider that the program which

Mr. Boyd sent up would require a minimum appropriation of almost \$600,000,000 a year to make it operate. We're talking about three.

M: A difference between \$3 and \$600?

G: No, \$300,000,000 and \$600,000,000.

M: Oh, half.

G: I'd like to get it down to \$3 [million]. No, our present level is \$200,000,000 for operating subsidies, and, approximately, \$100,000,000 for construction. To implement the present program under the Merchant Marine Act, you would need a minimum of \$400 to \$450,000,000. Boyd was cranking in some extra ship construction which would bring the total up to around \$569--say, \$600,000,000, per year for the first ten years, I believe.

M: So your program is aimed at accomplishing an expanded goal with less budgetary impact?

G: That's right.

M: As you know, when we try to prepare for interviewing someone in an agency of this kind, we're likely to overlook something that's very important. If I have, is there something that has been an issue during the Johnson Administration, or before, that you think would be worthwhile to add to this conversation we've had? If so, feel free to do it.

G: Oh, there are many things. This would require a good bit of zeroing in. Many small problems. Even though we have not been able to get the appropriations we needed for that kind of a program which we thought was necessary, when the history of this administration is written, it will show that the transportation revolution came to pass during this time. Now, this is going to be the biggest and brightest page in this administration's portfolio, and I really don't think they have the slightest idea this is there.

M: It has happened in spite of them rather than because of them?

G: It has come to pass simply because everybody in the government without using us over here, were all zeroing in on this national program. We didn't think it was going to work, but we supported it. We did the best we could for them in all kinds of ways. Some they know about--most of them they probably don't know about--but suffice it to say we supported the program. But at the same time we have been working with shippers, with banks, with insurance companies, with ship builders, with ship operators, and with labor leaders, trying to keep the lid down and to move forward with what we have.

Well, with the emphasis which we saw starting back in '63 on the possibilities of containerization, and using this as a common denominator for all forms of transportation, we have needled, and pushed, and banged over the head, and wheedled, and pled with, and cussed out, and argued for with all of these different segments of industry to give this thing a chance. We have painted pictures of the profits and now it's coming into being. In the last three months, we have had more presidents of railroads in meetings in this agency than we have had presidents of subsidized steamship companies.

M: Because their cooperation is necessary in the containerization program?

G: And they are wild about it, particularly our insistence that they get into the planning stages with us for the first time in history. The five northern railroads established an office in Japan to work with shippers. It is based on a land-bridge concept which uses the United States continent as a bridge between the Atlantic and Pacific instead of an all shipper route from Japan through the Canal to the U.K. and the continent. The ships go from Japan to the West Coast; the containers are off-loaded; they go piggy back by railroad over to the East Coast where they're taken by ship to destinations. The railroad gets a piece of the action

the labor unions adopted the practice of going for "Me too's. You get it. I get it." Although we had an agreement that they wouldn't come in for any other increases for four years, they still went to the operators and said, "Look, we need a little more of the action here, so give us an increase." Example: "You have just agreed to a new level of pensions. These things have to be funded; people will be retiring, so give us increases here--so much more per man-day for the pension fund. \$6.00 per man-day in the National Maritime Union alone would equal a \$4 to \$5,000,000 a year contribution. That's sizeable money.

Well, from '65 to the first half of 1968 the increases, as a result of "Me too's," as far as we can figure have been on the level of some 31 or more percent over the '65 levels. This is a hell of an increase to slap on an industry that's not in good health anyhow. So we have gotten with the labor people very quietly and have said to them, "You've reached the end of the line; you can't do this." And over a period of two or three years, they have held the line. This 31 per cent increase took place in the first couple of years. Beyond that, they haven't gone any higher. And, in fact, they have not even taken out in cash all of the agreements they were entitled to. They're leaving them on the shelf at our request.

In the meantime we have gone to the labor people and said, "Look, we know you wouldn't take our estimate of what the cost of these collective-bargaining agreements has been. So we are going to contract with a good management-research type firm, and we're going to ask them to engage in a four or five-part management-information study program for us, but we're just putting you on notice that the first part of this program is going to be "What is the cost of the collective-bargaining agreements?" And out of this we're going to take the information and strike a base line, and we're going to say

they never had before because formerly the route was all water.

Longshoremen in Seattle, San Francisco, get a piece of the action that they never had before; longshoremen in New York, Norfolk, get a piece of the action they never had before. This is something new. So by these means we have gotten the industry to fully appreciate and be willing to get into this new intermodal system concept, and it is now growing to the point where things will never be the same again.

M: And the impact is far broader than simply on the American Merchant Marine, in this instance.

G: Oh, definitely. We have changed the whole concept of government relationship to the maritime industry by saying to the industry, "It's time you quit worshipping the ship as the end; it's only the means." And, in fact, it isn't the principal means. It's just one of the means, a segment of the pipeline. And as we get more and more acceptance of this, there will be a development of transportation modes to the point where--well, it will never back down. We can only go forward on this. Now the problem is to get that degree of government support which can help to get over the hump. Once over the hump, this thing should largely care for itself, because the profits are there.

M: So the government role is really in initiating?

G: Yes. There's one other area that should be touched upon that's not known, but it should be recorded for history because it's important. All through this period, starting with the maritime labor negotiations of June 1965, the administration attempted to come forward with their famous 3.2 per cent cost-of-living escalation each year. The various national efforts to get agreements to conform to that level were largely failures. The maritime industry, however, was in a very difficult situation because

'Now, fellows, we think this is where the line should be.' And from here on out you and I are going to agree on an index escalation each year. Now, if you don't want to play it on this basis, kiss goodbye to your union jobs, to your union membership, and to a Merchant Marine." And to our amazement, they agreed. So we got the study going.

Now if we can come out with this one and strike the base line and get agreement on an escalation index per year, we are out from under the problem which has plagued the industry since World War II of uncontrolled collective bargaining. Because it will then be between the unions and the operators and the government will only be paying that escalation.

M: Right. But you can predict and plan for [it] in advance.

G: Today, and this has been true since at least the mid-50s, the government has been picking up in subsidy every penny of increase under the collective bargaining agreements.

So we've had quite an incentive to get into this thing. Now, if we can get a new program on a good solid commercial basis, if we can get control of the labor costs through this mechanism, if we can come up with that type of program which puts private money into the operation of the ships and encourages the making of profits, we will have devised an incentive-subsidy system. And in fact we have built the basis for the Merchant Marine to step out as an equal partner in the industrial commercial complex of the United States. And we'll all be very happy then to retire and feel that the forty years have been worth it.

M: And you don't figure this is going to happen any time soon, but it's at least a--

G: We're working on it.

M: That's as good a place to stop, I believe, as any.

[End of Tape 1 of 1 and Interview I]

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