

SHIP BOARD 'BLED WHITE,' HE SAYS, BY 'COST PLUS' PLAN

**Gillen Ascribes Loss of Billions
to Failure to Understand
Principles of Contract.**

ARMY FAILS TO PAY BILL

**Still Owes \$178,000,000 on Ac-
count That Cost \$300,000
to Have Audited.**

MILLIONS LOST ON TANKERS

**Leased at \$6.50 a Ton When \$20
Could Have Been Obtained—
Proposes New Program.**

Double and possibly triple losses have been incurred by the United States Shipping Board in its attempt to operate its tank ships, according to the testimony of Martin J. Gillen, formerly special assistant to Chairman John Barton Payne, who yesterday concluded his second day as a witness before the Congressional Select Committee on Shipping Board operations by disclosing new avenues through which millions of dollars slipped through the hands of those in charge of the administration of the Shipping Board.

Losses which he said it was possible to estimate—losses in millions and in billions—resulted from the application of the cost-plus contracts simply because the representatives of the Shipping Board, not understanding the principles underlying those contracts, permitted the Shipping Board to be bled white, through the practice of corporations in farming out these contracts to subsidiary companies, while both parent and subsidiary companies were allowed from 6 to 10 per cent. profit each on excessive labor, materials, transportation and other costs.

In addition to this the Shipping Board had been put to great expense in the adjustment of its claims against the War Department, aggregating \$208,000,000, of which only \$30,000,000 was paid recently, and against other Government departments.

Further losses in the operation of ships occurred when inexperienced men in charge of refrigerator vessels permitted their cargoes to spoil.

Mulcted by Ring in Brazil.

Frauds against the Shipping Board were not confined to the United States, according to Bernard S. Van Rensselaer, an attorney of Rio de Janeiro, who described the activities of a ring of ship chandlers and repair men in Brazil who mulcted the Government through excessive charges for supplies and repairs and perpetrated these frauds against private ship owners as well.

At the request of the committee for constructive recommendations with reference to future operations Mr. Gillen said the process of liquidation should be eliminated as soon as possible so that the Shipping Board could give its attention almost wholly to the operation of vessels. He suggested that each of the seven members be placed in charge of a particular department where he could study the details and work out solutions of operating problems.

In telling of losses in the operation of tankers, Mr. Gillen said a list compiled last May 24 showed that the Shipping Board had fifty-four of these vessels, of which twenty had been allocated to private oil companies. There were six in semi-private use, while thirty-three were operated by the Government. On May 28 he found that along the Atlantic Coast fifty-four ships were idle because the board did not have enough tankers and was unable to fuel them. This cost the Government \$2,000 a day for each idle ship, or \$3,240,000 a month. Furthermore, he testified, while the Government was purchasing fuel oil for \$2.07 a barrel, private concerns operating vessels on Shipping Board account were buying oil in the open market at from \$4 to \$8 a barrel.

Big Loss on Tanker Leases.

Representative Kelly of Michigan asked if the loss due to the purchase of oil at the higher prices paid by the private operators as against that paid by the Government would not total approximately \$64,000,000, but the witness said he would not "venture a guess" without the data before him. To losses from idleness and from fuel prices he added the losses due to disadvantageous leases.

"We at that time were vitally short of tankers," said the witness. "There was a national shortage and a world shortage, and I am informed, although I personally have made no investigation along this line, that the rate at which these tankers were being leased in the open market ran from \$15 a dead-weight ton to as high as \$20 and \$22 a dead-weight ton. The Government was leasing tankers to private parties or corporations for either \$6.15 or \$6.50 a dead-weight ton per month.

"Here, unknown to Judge Payne or Admiral Benson for months, we had tankers making a minimum of \$50,000 a month, and it was the only piece of floating property we had on which we could have made a handsome profit."

At this time, the witness said, Captain Paul Foley was in charge of the operation of tankers as chief of the Bureau of Operations. When the situation was discovered, however, Admiral Benson acted immediately, taking the operation of the tankers out of Captain Foley's hands although leaving the Captain in charge of the Bureau. The Admiral also had a chart made to show where tankers were needed to supply fuel for the Army, Navy, Shipping Board, and Panama Railroad.

"Now the Admiral is able to control the situation," asserted Mr. Gillen.

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"There is only one thing wrong; the time charters with those private concerns should be broken. The Government should take back those ships even if the charterers claim damages."

Mr. Gillen was asked by Representative Kelly if the President did not have the war-time power to take over these tankers. The witness didn't think favorably of the suggestion. "Usually," he said, "when we got one of these grizzlies in this way, we messed things up worse than before."

"The tanker situation was so rotten," he added, "that when I put my finger into it, it went down to the elbow. Captain Foley was an honest man, but he has no business to have anything to do with the tanker situation."

Under cross-examination the witness said the allocation of some of these tankers was made after he and Captain Foley had been working for three weeks to locate the trouble with the fuel situation. He testified that the last of four tankers was allocated to the Vacuum Oil Company last May 24. Of all the oil companies that got tankers for private use, he said the Standard of New Jersey was the only one that had employed the vessels to furnish oil to the Government. He said the claims of that company against the Government represented 1,500,000 tank tonnage.

In this deal, Mr. Gillen asserted, the Standard Oil Company of New Jersey got an "awful trimming," and incidentally he testified that, contrary to the opinion of most persons, the Standard oil subsidiaries did not always cooperate with entire harmony among themselves.

Proposes Constructive Program.

Under its new program, Mr. Gillen explained, the Shipping Board will have ninety-three tankers of approximately 11,000 tons each. To transport its fuel oil supplies the Government will re-

quire fifty-four of these vessels. The remaining tankers should be available for the market, according to Mr. Gillen, who suggested that the present market was the best that the Government would ever get. This was true, he said, because there was a great building program under way in Great Britain as well as in this country, and the total new tonnage would approximate 900,000, of which the average cost in this country was about \$190.

In outlining the steps he believed should be taken to inaugurate a constructive program, Mr. Gillen said:

"The first big thing is to remove from the Shipping Board all jurisdiction over all balances of the construction departments; all balances of the Supplies and Sales Department; all balances of the Settlements and Claims Department; and the collection of the back receivables and back accounts. In other words, have Congress create a small liquidating corporation, independent of the Shipping Board, and pick out five outstanding business men, the corporation to be non-political in its make-up. The accounting division of the Shipping Board can go right on with its operations."

"The new board will consist of seven men. Exclusive of the Chairman, there will be six, to each of whom there should be allocated one particular piece of work in reference to operations. One of the members should be put at the head of a department concerned chiefly with docks and dock charges. He should be provided with an able assistant who can furnish him with the necessary charts. Another member should be concerned with supplies, and he should have an assistant to do the charting for him necessary to the successful operation of his department. Likewise there should be another member in charge of allocation of ships, one should handle repairs and still another should take charge of the stevedoring companies and the commissions being paid to these brokers."

Would End Government Operation.

The witness did not favor any attempt to have the Government continue the operation of ships.

The fact that the claims of the Shipping Board against the War Department amounted at present to \$178,000,000 was brought out in the earlier testimony of Mr. Gillen. An outlay of \$300,000 was required of the Shipping Board in auditing that claim alone, and the War

Department also was put to great expense in auditing the same claim.

A detailed statement of the bill against the War Department was made last June, according to Mr. Gillen, who said a request for immediate payment had been made. The claims, he explained, grew out of the operation of Shipping Board Vessels as troop and war cargo carriers, and among the other items were costs of building army transports with Shipping Board funds, losses growing out of submarine attacks, and the cost of refitting ships as troop transports.

Concerning the delay in the adjustment of these claims, Mr. Gillen said Brig. Gen. Frank Hines was largely responsible. General Hines, according to the witness, took special delight in blocking these payments, yet when he left the War Department and became interested in a shipping concern he appeared before the board as a supplicant. Almost immediate action on the War Department claims was procured following the resignation of General Hines.

"It was just one department taking another department's bills and playing with them while the taxpayer paid," asserted Mr. Gillen.

Opposed New Appropriations.

That the Shipping Board had been able to continue operations without calling upon Congress for additional appropriations was due to the fact that the \$30,000,000 payment on account of the War Department, and payments of claims by other departments had been made at an opportune time. When he appeared last Summer before the Appropriations Committee, he said he advised that no appropriations be provided for the Shipping Board, in the belief that the board would thus be compelled to collect some of its outstanding accounts.

The claim situation, according to the witness, was in a "very bad condition." He said claims were not charted or analyzed, and it was his belief that they ran "into billions of dollars." There was one against the Food Administration, totaling \$16,500,000. It was settled finally for \$9,500,000.

Mr. Gillen explained the cost-plus contracts which he had originated after having been called to Washington by Howard Coffin, at that time Director of the Council of National Defense.

That the Government was not amply protected was due to the inability of the men in charge of the shipbuilding program to understand the fundamental principles underlying the cost-plus contracts.

"An illustration of how proper cost-plus would work out" he said "is shown in the case of the American Shipbuilding Corporation of Cleveland, owned by the Rockefeller interests. Upon the request of the owners of that institution a resolution was passed by their board to the effect that their corporation would not be permitted to make over 10 per cent profit on war work. In October, 1919, when I arrived in Washington, Judge Payne turned over to me that case for settlement."

Company Returns \$25,900,000.

"Under cost-plus contracts which they had the American Shipbuilding Corporation was entitled to \$157,000,000. They requested that their contracts be changed to lump sum, and they offered to return to the Government approximately \$7,000,000 for all excess railway charges, \$8,000,000 for excess wage increases paid under the Macy award, \$7,000,000 for amortization of plants, and \$3,000,000 for depreciation, all of which they were entitled to under the contract made by them with the United States Government—a total of \$25,900,000. The difference in amounts is due to my not having the records before me."

"It was the most unusual position taken by any contractor with a legal, binding contract on the Government. A new contract for a lump sum, retroactive in its nature, was entered into with them after they had made the deduction of \$25,900,000."

"In my judgment, had proper cost-plus contracts been drafted many of the other large contracts would have been materially cut, and this applies not only to the Shipping Board, but to the other departments of the Government as well."

Mr. Van Rensselaer was questioned but, briefly by the committee about frauds alleged to have been committed by officers of the steamship Dio, at Rio de Janeiro. Mr. Van Rensselaer said he had procured the depositions of more than twenty witnesses, indicating there was a ring in Rio defrauding American vessels and particularly the craft of the Shipping Board.