

THE ALABAMA STATE DOCKS

A Case Study in State Development



FEDERAL RESERVE BANK of ATLANTA
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THE ALABAMA STATE DOCKS

A CASE STUDY
IN STATE DEVELOPMENT

By EARLE L. RAUBER
Senior Economist

FEDERAL RESERVE BANK OF ATLANTA

JANUARY 1945

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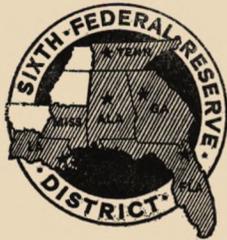
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FOREWORD

Because of the very nature of its operations, the Federal Reserve Bank of Atlanta is intimately concerned with any plan or project that contributes to the economic development of the region that it serves. As an expression of that interest, the Bank published about a year ago a pamphlet describing Mississippi's state-controlled plan for subsidizing new enterprises. The present study is an account of the experience of the state of Alabama in fostering industrial development by means of state-owned port facilities. This major industrial-promotion venture of Alabama's thus offers a contrasting and supplementary approach to the same problem that Mississippi attacked with such originality.

In publishing this study of the Alabama State Docks at the port of Mobile the Bank simply wishes to contribute to a better understanding of ways and means by which new industrial development has been stimulated. The Bank has authorized its research department to make other studies dealing with the same vital problem. These studies will be issued from time to time as they are completed.

W. S. McLARIN, JR.

President

January 1945

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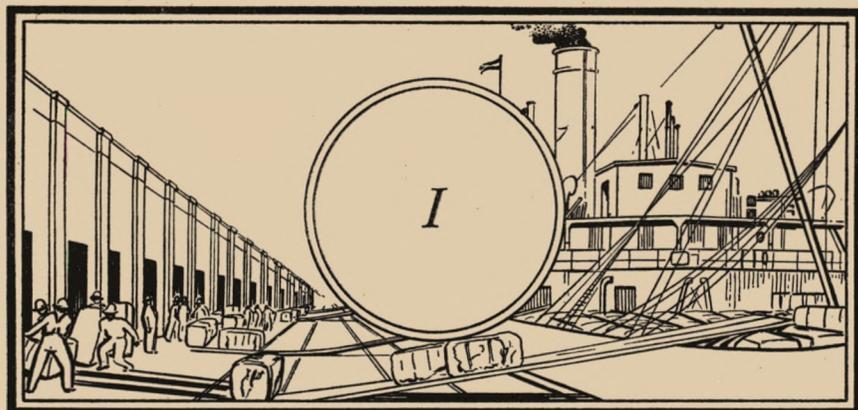
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THE PORT OF MOBILE AND PLANS FOR DEVELOPMENT

The story of the Alabama State Docks and Terminals at Mobile is the story of one state's efforts to increase the utility of its only gateway to the sea in the expectation that the economic advantage of the state, as well as that of the region tributary to the port, might be enhanced. Steps taken in that direction have been justified in large measure by the results that have been achieved.

A port is fundamentally a place where a stream of traffic arising in an economic hinterland, and carried primarily by inland transportation facilities, is converted into a stream of ocean-borne traffic and incoming ocean-borne traffic is converted into inland commerce. Such conversions presuppose the existence of suitable facilities with transit sheds of adequate capacity to take care of package-freight business; open storage space at shipside ample for handling such commodities as lumber and naval stores; warehouses at shipside, or conveniently adjacent to it, of a character and a capacity suitable for the warehousing of imports and the assembling and storing of goods ultimately intended for export. These same conversions also assume an efficient system of belt-line communication for use in switching freight, at equal cost, to and from all terminals used for public transportation purposes. Any serious inadequacy of facilities hampers the free flow of commerce. A deficiency of that type reduces the utility of the port by discouraging the placing of cargo there and by making it less attractive, as a port of call, to steamship companies.

Only a few years ago, Mobile had just such a bottleneck to commerce, with a resulting loss of potential trade in the commercial region fed by the port. Since then, the state of Alabama has constructed at Mobile a

complex of physical port facilities, modern in design and layout, for the purpose of attracting both tonnage and shipping service. These facilities were expected to increase the flow of commerce through the port and to secure whatever economic benefits might accrue from such commercial development.

Chart 1 shows the tonnage brought through the port of Mobile from 1902 to 1942. From the figures given can be inferred both the necessity for such an increase in port facilities and the foresight with which the facilities themselves were planned.

For the years 1902 to 1922 the chart discloses no increase in the use of Mobile as a port. Though fluctuations in tonnage did occur, they were mostly of a cyclic character. During the next seven years, however, the tonnage passing through the port rose sharply, and it became obvious that the facilities, which might have been adequate for the tonnage of the 1902-22 period, would become increasingly inadequate for the handling of an expanding volume of traffic. Unless the facilities were modernized and extended, the limit of the port's physical capacity would soon be reached.

Even though the docks were not formally opened until June 1928, the state had shown foresight by giving consideration to the development of the port of Mobile as early as 1915. In other words, the planning occurred well in advance of the increase in tonnage that the new enterprise might be expected to handle.

What was not foreseen, however, was the almost complete collapse of foreign trade incident to the depression that began in 1929, just at the time the new state docks were on their way to full utilization. From 1932 on, the volume of tonnage again increased, and the state docks and terminals once more had an opportunity of proving their value. The coming of war served to make of this enterprise a national asset as well as a state asset, especially in view of the Government's policy of utilizing the Gulf ports to a much greater extent than they had been used in World War I.

Docks and Wharves

The United States Army Corps of Engineers, co-operating with the United States Shipping Board, in 1922 made a survey of existing port facilities, as well as related matters, at Mobile. This survey revealed the existence of 32 piers and wharves, 2 of which were owned by the city, 15 by railroad companies, 2 by the United States Government, and 13 by private concerns. In addition to these were 17 landings, dry docks, unused slips, and slips belonging to shipbuilding companies. All piers and wharves were of pile construction, and 29 of them had railroad connections.

Of the installations owned by the city, only the Municipal Wharves, occupying a frontage of 1,500 feet along the river and having a depth of 120 feet, were of any significance. These wharves possessed two open transit sheds, one of steel and the other of wood, the wooden shed being much the smaller. The municipal wharves were used to handle river,

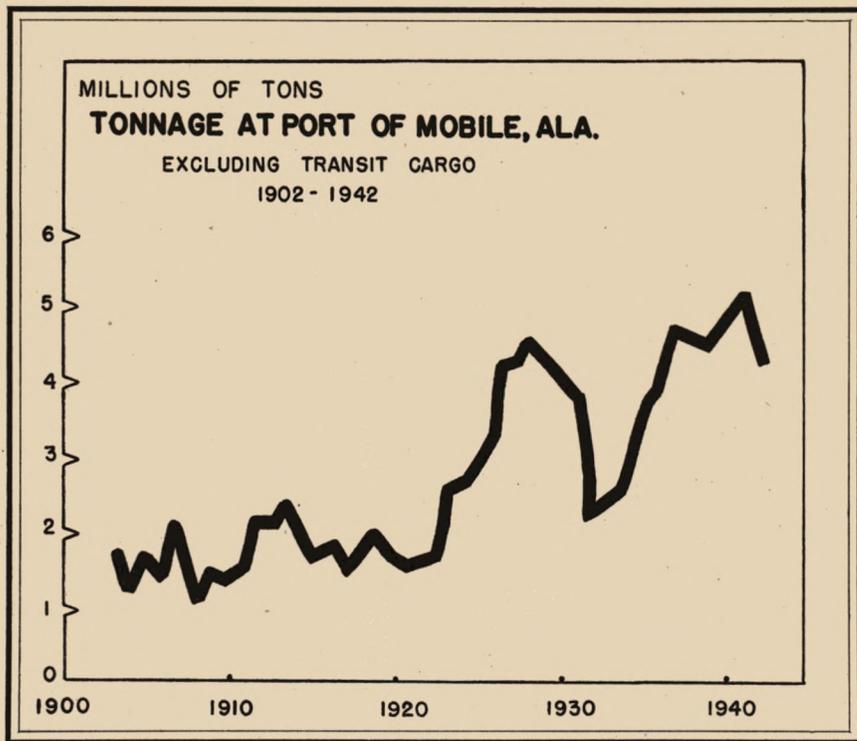


CHART 1

coastwise, and export cargo, but their usefulness was limited by the absence of warehouses in the immediate vicinity for the indefinite storage of cargo. The other municipal facility, the so-called Arlington Pier, was never completed, or used, because of the ravages of tropical storms upon the fill and even upon the apron of the wharf.

Of the two federally owned facilities, one was a coal- and ore-handling plant on Blakely Island, for the use of the Inland and Coastwise Waterways Service. But this plant had berthing space of only 500 feet. The other was an oil-storage and bunkering plant of the Emergency Fleet Corporation with a 394-foot berthing space. Neither of these facilities had rail connections.

Seventeen wharves and slips belonged to dry-docks and shipbuilding companies. These wharves were used in connection with the specific operations of the companies that owned them.

Of the privately owned facilities, the three piers of the Turner Terminal Company were the most important. Over these docks moved general cargo, naval stores, cotton, sisal, staves, and lumber. The nine other privately owned facilities, with the exception of the ships' fuel-oil docks belonging to the Texas Company and the Gulf Refining Company, did not handle exports or imports to any considerable extent.

The remaining facilities, owned by the railroads, were the most important. Of the railroads, the Mobile and Ohio Railroad Company owned four piers: one had a grain gallery; one was used for receiving bananas and general cargo; one for general cargo; and one for handling and storing fertilizer, asphalt, and general cargo. Two piers for general cargo were owned jointly by the Mobile and Ohio Railroad and the Southern Railroad. In addition, the Southern Railroad owned two piers: one was leased to the Mallory Steamship Company; the other was used for bunker and cargo coal. The Louisville and Nashville Railroad Company operated a coal dock and owned marginal wharfage and trackage but made little use of any of these except the coal tipple. This tipple was to be seriously damaged by fire in 1933 and was not to be rebuilt, the railroads serving Mobile preferring to use the modern tipple provided by the state. Finally, the Gulf, Mobile and Northern Railroad had two piers from which were handled logs and lumber.

Most of the facilities usable for export and import traffic were those constructed by the railroad companies. Although these railroad docks were adapted to the purpose for which they were intended at the time of their original construction and were suitable for handling low-grade freight, they were rapidly becoming obsolete and unsuited to the use of larger ships. As a rule, none of them was sufficient for the berthing of more than one ship at a time, and the slips between them were frequently so narrow as to make impossible the berthing of two steamers at adjacent piers with proper regard for navigation and for bunkering or loading cargo to or from barges alongside.

At the time of the survey in 1922, the existing dock facilities were clearly incompatible with any large-scale growth of high-grade traffic through the port of Mobile. The need for more adequate accommodations was obvious.

Storage and Warehousing

One of the major considerations in the routing of high-grade cargo is the storage facilities available at a port. Moreover, such storage or warehousing facilities, to be of the greatest service, should be at shipside. Mobile, however, had only one shipside warehouse, providing 137,500 square feet of floor space with a floor-load of 1,000 pounds a square foot. This was the warehouse of the Turner Terminal Company. Though the city had six other warehousing concerns, providing 660,000 square feet of additional floor space with a floor-load of only 200 pounds a square foot, these facilities lay from one to three blocks away from the docks or wharves and their use entailed expenses of drayage and additional handling.

At the railroad docks, storage cargo was typically carried in railroad cars. Such storage was unsatisfactory and uneconomical in several respects. The more modern ships, involving overhead and operating charges ranging from \$1,000 to \$1,500 a day, demanded expeditious loading and unloading if a call at a port was to be profitable. Where inadequate sheddage is

provided at shipside and where all the cargo, or most of it, has to be loaded or unloaded directly between cars and ships, time is lost in the spotting of cars. In such cases, the cars themselves are tied up when they are used for storage purposes. Although in normal times the greater part of cargo passing through the port of Mobile still moves directly from cars on marginal tracks to ships, ample transit-shed space is now provided at shipside for the handling of that part of the cargo not going directly to the ship from the cars. In the case of inbound traffic, these sheds also facilitate expeditious loading out to the interior. When the survey was made, however, so inadequate were the railroad docks in this respect that some shipping companies preferred to use private docks and pay dockage charges than to use the railroad terminals, which made no charge for dockage.

Mobile clearly suffered a handicap in securing any large volume of domestic or foreign commerce, because of the insufficiency of storage facilities at the waterfront.

Commerce

The character of the port facilities at Mobile went far to determine the kind of commerce that could move profitably through the port. This commerce, both foreign and domestic, consisted largely of bulk commodities of low value.

For the period 1916-20, blackstrap molasses used in the manufacture of cattle feed had constituted 36.8 per cent of the foreign imports; bananas had constituted 21.7 per cent. The next most important product imported was sisal grass, constituting 3.1 per cent of the total. In the export trade, lumber and its products had amounted to 53.6 per cent, whereas lumber together with iron and steel and coal had constituted 70.8 per cent.

Of the domestic receipts, 44.8 per cent was lumber and its products; 18.2 per cent petroleum and its products; 15.9 per cent coal; and 15.0 per cent sand and gravel. Coal made up 47.5 per cent of domestic shipments; lumber and its products 19.4 per cent; feed, hay, and grain 10.8 per cent.

The impression conveyed by the survey was that the port facilities in Mobile in 1922 were generally inadequate for any large growth in commerce. In summarizing the situation, the Army Corps of Engineers said that:

If the port of Mobile is to offer better service to the country in handling the increasing quantities of exports originating in the productive territory in and adjacent to the Mississippi and Ohio Valleys and in distributing the imports which must constitute the return cargoes of vessels operating at the port, a project must be formulated and adequate facilities provided.

The Building Agency

The 1922 report of the United States Army Corps of Engineers established the necessity for new dock and terminal construction at Mobile, if this

port was to reap the advantages of its location with respect to its export and import tributary territory. In fact, the need was obvious to all informed observers. The important question was: Under what auspices would new construction be undertaken? In other words, what agency was in the best position to undertake a project of such magnitude—the city of Mobile, the railroad carriers that had played an important part in dock construction in the past, the steamship companies, the private dock and terminal companies, or the state?

For the city to undertake such a project was impossible, since a program that would really remedy the situation was beyond the city's financial ability. Moreover, nearly a million dollars had already been spent and virtually lost on the ill-fated Arlington Pier.

Little could be expected from the railroads, and for a good reason. The docks and terminal facilities under their control were used primarily for handling traffic coming over their respective lines, and the railroads looked to their line hauls for their profit rather than to their docks and terminals. In effect, these carriers were giving away the services of the docks in the expectation of recouping the loss in the freight rate. The Louisville and Nashville Railroad, for example, made no dockage charge against a vessel while it was loading or unloading, although a charge of one cent a gross registered ton a day might be levied for additional days. The Gulf, Mobile and Northern Railroad provided berthing space only for vessels that were loading or unloading and made no charge for dockage. Likewise, the Mobile and Ohio Railroad made no dockage charge against vessels loading or unloading cargo received or shipped over its rails.

The result of such practices was that the operations of the docks and terminals, considered apart from the rail operations, were not remunerative. For example, in 1924 a total of 3,166,389 tons moved over the terminals of railroad carriers at Virginia, South Atlantic, and Gulf ports. The expenses of these terminals, including interest but excluding handling, amounted to \$4,565,340, or \$1.44 a ton. Revenue, other than that from handling, amounted to \$621,682, or 19 cents a ton. These railroads were virtually selling what cost them \$1.44 for only 19 cents, thus sustaining a loss of \$1.25 a ton.¹

In the case of railroad terminals at Mobile, in 1924 the Southern and Mobile and Ohio terminals had expenses amounting to 48 cents a ton, whereas they recovered only 30 cents a ton as revenue. The Louisville and Nashville had expenses of \$1.34 and revenue of only 15 cents a ton. The Gulf, Mobile and Northern had expenses of 95 cents and revenue of 82 cents a ton.

In view of the unremunerative nature of their existing investment in docks and terminals, the rail carriers would obviously feel no incentive

¹ Interstate Commerce Commission Docket 12681, 1924, Consolidation of Carriers' Exhibits, Exhibit A.

to consider seriously the expenditure of an estimated four to five million dollars for modernization of their terminal properties.

The railroads' practice of using their terminal facilities as a device for the "buying" of line-haul freight also discouraged the construction of docks by private capital. If it was to stay in business, a private terminal company had to make expenses at least and would be in no position to compete with railroad terminals that were consistently operated at a loss. Consequently, no indication that any private capital was prepared to remedy Mobile's deficiencies in the way of dock and terminal facilities was apparent.

In their search for cargo, steamship companies will tend to go to the nearest port that has facilities enabling them to make the quickest turn-around. It is to their interest that such facilities be made available. But many of the lines are foreign owned, and these naturally would not invest in terminals so far from their home ports. On the other hand, American lines, whose business and ports of call are subject to change, would be very reluctant to invest in a terminal at any one port, and they could scarcely be expected to build terminals at every port they might use.

If, it was reasoned, the recommendations of the Army Corps of Engineers were to be carried out and if the city could not, if the railroads and steamship lines would not, and if private capital dared not do so, the only agency remaining to carry through such a program of extension and modernization was the state of Alabama.

Legislative Steps

The idea that the port of Mobile should be improved by the construction of modern dock and terminal facilities under state auspices did not, of course, originate with the 1922 report of the Army Corps of Engineers. It originated several years before the survey was made.

The Alabama legislature in 1915 passed a measure creating a State Harbor Commission. The commission was given authority to engage in the work of port improvement and to finance itself by the sale of bonds.² This act, however, was in conflict with the 1901 constitution of Alabama.³ Reiterating a prohibition contained in the 1875 constitution,⁴ the 1901 document provided that:

The State shall not engage in works of internal improvement nor lend money or its credit in aid of such; nor shall the State be interested in any private or corporate enterprise, or lend its credit to any individual, association or corporation.

Obviously, if the intention of the state as expressed in the new act was to be carried out, the Alabama State constitution itself would first have to be amended.

² *General Acts of Alabama*, 1915, No. 628.

³ *Constitution of Alabama of 1901*, art. IV, sec. 93.

⁴ *Constitution of Alabama of 1875*, art. IV, sec. 54.

Congress gave impetus to the demand for state action by a declaration of policy in the rivers-and-harbors appropriation act for 1919.⁵ The Congress there expressed itself as follows:

It is hereby declared to be the policy of Congress that water terminals are essential at all cities and towns located upon harbors or navigable waterways, and that at least one public terminal should exist, constructed, owned, and regulated by the municipality or other public agency of the State and open to the use of all on equal terms, and with the view of carrying out this policy to the fullest possible extent, the Secretary of War is hereby vested with the discretion to withhold, unless the public interests would seriously suffer by delay, moneys appropriated in this act for new projects, adopted herein, or for the further improvement of existing projects, if, in his opinion, no water terminals exist adequate for the traffic and open to all on equal terms, or unless satisfactory assurances are received that local or other interests will provide such adequate terminal or terminals.

The municipal wharves might have satisfied the intention of Congress in virtue of their existence but certainly could not have done so in virtue of their adequacy. Mobile was threatened with the loss of Federal expenditures for harbor improvement unless something was done to create such public terminals as Congress demanded.

With this prod from Congress, an amendment to the constitution of Alabama was proposed to the voters in 1920. Although supported by Birmingham industrial interests, as well as by interests intimately associated with the port, this amendment was defeated at the polls. The defeat resulted partly from railroad opposition and partly from the fear of voters in more distant parts of the state that they would be taxed for the benefit of Mobile alone.

After two years of public education and at the behest of Governor Thomas E. Kilby, the legislature⁶ again submitted to the voters of the state an amendment to section 93 of the constitution of Alabama. The change would enable the state:

... when authorized by appropriate laws passed by the Legislature to engage in the work of internal improvements, of promoting, developing, constructing, maintaining and operating all harbors and seaports within the State or its jurisdiction at a cost not exceeding ten million dollars.⁷

Opposition to the state's program for harbor improvement had virtually disappeared by 1922. In that year, the amendment was carried almost unanimously at the polls.

The following year, the legislature passed an enabling act⁸ giving force

⁵ Act March 2, 1919, c. 95, sec. 1, 40 Stat. 1286; 33 U. S. C. A., sec. 551.

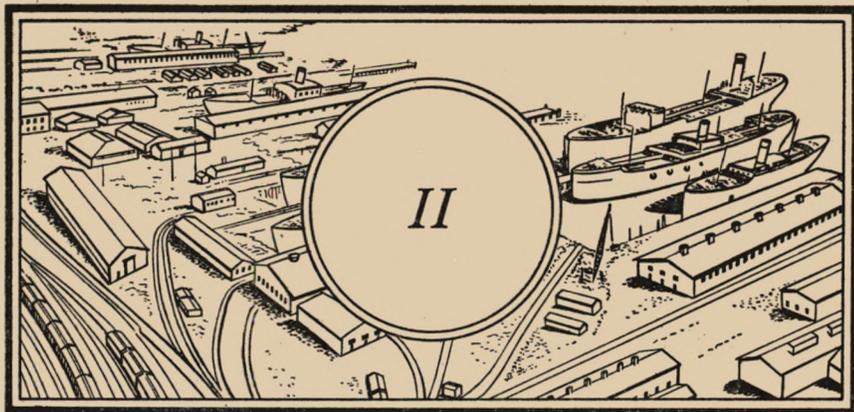
⁶ *General Acts of Alabama*, 1921, p. 1.

⁷ *Constitution of Alabama of 1901*, Amendment XII.

⁸ *General Acts of Alabama*, 1923, No. 303.

to the new amendment. This act set up the State Docks Commission in lieu of the previously existing State Harbor Commission, specified the general administrative functions of the new body and provided for the appointment of its officers and employees. It then proceeded to confer upon the new commission the "power to promote, construct, operate, and maintain wharves, piers, docks, quays, grain elevators, cotton compresses, warehouses, and other water and rail terminals and other structures and facilities for the aid of commerce." Similar powers were granted for the construction and operation of terminal railroads and facilities. The title to all such properties was vested in the state, but the control was placed in the hands of the State Docks Commission. The enabling act further provided for the method by which the enterprise should be financed.⁹ With the passage of this enabling act, the state of Alabama was prepared to launch out upon its new venture in the creation of a public enterprise.

⁹ See Financing the Project, p. 15.



ADMINISTRATIVE HISTORY

Four well-defined periods mark the administrative history of the Alabama State Docks. These periods are: 1923-27, 1927-35, 1935-39, and 1939 to the present. The demarcation of the periods has been occasioned by changes in the law under which the docks are operated.

First Period: 1923-27

The enabling act of 1923 provided for an administrative authority, to consist of three men appointed by the governor. These men were to serve without compensation except for travel money and were to have no financial interest in any harbor facilities. No two were to be appointed from the same congressional district. Though the term of office was fixed at five years, members of the first commission were to serve for two, three, and four years, respectively.

The law provided that the governor "may" appoint, in addition to the State Docks Commission, a board of censors, to consist of three men, one of whom should be an engineer and one an architect. This board, together with the examiner of public accounts, was to review the activities of the docks commission at least once between January 1 and July 1 of each year, and again between July 1 and December 31. It was to report to the governor any criticisms and suggestions that seemed appropriate. Such a board of censors, constituted according to the provisions of the law, was appointed only once and then only at the insistence of General Sibert, who, just before retiring, wanted the board to pass on what had been accomplished.

The first State Docks Commission was appointed in 1923 by Governor William M. Brandon. It consisted of Frank G. Blair, a businessman of Tuscaloosa, appointed for four years; George Gordon Crawford, a

Birmingham industrialist, appointed for three years; and Charles Henderson of Troy, a former governor of Alabama, appointed for two years.

On successive appointments, Mr. Henderson served on the commission until his resignation on September 14, 1929, and Mr. Blair served until he resigned on September 21, 1935. Mr. Crawford, however, held office only until November 1923, when he relinquished the chairmanship of the commission to make way for General William L. Sibert.

General Sibert was an Alabamian and a retired United States Army engineer. He had distinguished himself as commander of the First Division, A.E.F., in World War I. General Sibert was more especially known through his activity as a cobuilder of the Panama Canal, being chiefly responsible for the construction of the Gatun locks and dam. Through the persuasion of Governor Brandon and Mr. Crawford, he was induced to emerge from retirement in order to accept the chairmanship of the commission along with the joint position of chief engineer and general manager. To his vision, engineering ability, and sense of economy is attributed the present technical excellence of much of the state's present layout of docks and terminals.

Second Period: 1927-35

The law was amended by the legislature in 1927 to make possible the filling of vacancies on the commission by the vote of the remaining members.¹⁰ The commission thus became a self-perpetuating body. Under the terms of this amendment, Richard A. Christian, a Mobile businessman, was elected in 1929 to succeed Mr. Henderson and Temple W. Tutwiler, a Birmingham industrialist, in 1931 to succeed General Sibert.

The amendment was an effort to put the administration of the state's docks on a basis analogous to that of the state university, which was also administered by a self-perpetuating board. This change was designed to remove the administration of the docks from the political influence of successive governors.

B. M. Miller, the Governor of Alabama, in 1932 called on the Brookings Institution of Washington, D. C., to make a thorough survey of the organization and administration of the state government. In their report, the investigators pointed out, with regard to the state docks, the generally unsatisfactory nature of a self-perpetuating board as a form of business administration. Such a board lacks centralized authority and responsibility, which are so necessary in the conduct of a business enterprise. Furthermore, an opportunity is presented for two members of the board to place a personal friend upon the commission without regard to his fitness. This danger, always present in connection with a self-perpetuating board, is especially serious, it was held by the investigators, when the board is small, as it was in the case of the State Docks Commission. It so

¹⁰ *General Acts of Alabama*, 1927, No. 1.

happened, however, that the state docks escaped this danger because only two vacancies were filled by that method and the new incumbents in both cases were men eminent for their business ability and public spirit.

Marion M. Caskie, later a member of the Interstate Commerce Commission and now a vice president of the Reynolds Metals Company, was appointed general manager by the State Docks Commission upon the retirement of General Sibert in the fall of 1931. Mr. Caskie resigned two years later to become the Southern Traffic Assistant to Joseph B. Eastman, then the Federal Coordinator of Transportation. From that time until the fall of 1935, C. E. Sauls, with the title of assistant general manager, acted in the general manager's place in operating the docks under the direction of R. A. Christian, chairman of the commission, who handled the finances.

Third Period: 1935-39

With the election of Governor Bibb Graves for his second term (1935-39) after a heated campaign, the three commissioners then in office resigned as of September 21, 1935. At the governor's insistence, the legislature had once more made the commission a body appointive by the governor, with the governor himself serving as chairman of the commission.

Governor Graves appointed General R. E. Steiner, an outstanding railroad attorney of Montgomery, as vice chairman, and to the other two posts he named Robert I. Ingalls, a Birmingham industrialist, and Frederick I. Thompson, a publisher and a former member of the United States Shipping Board. R. M. Hobbie of Montgomery was appointed as general manager. The only subsequent change in the composition of the commission made during the Graves administration was the appointment of Frank P. Folmar of Mobile in June 1938 to fill Mr. Thompson's unexpired term, the latter having resigned.

Despite the generally recognized ability of the commissioners, clashing personalities seemingly produced a great amount of internal wrangling within the commission. The vice chairman was accused in the press of periodically resigning or threatening to resign in order to force the other members of the commission to accept his policies. Sometimes, too, it was charged in the press, he undertook to put through his own policies in defiance of the opposition of his colleagues and without always consulting them. Generally speaking, this period was the least satisfactory from an administrative standpoint in the entire history of the state docks. Nevertheless, in spite of the apparent confusion, substantial good was accomplished both in the way of the docks' becoming more nearly self-sustaining and in the locating of important industries within the vicinity of the docks.

Fourth Period: 1939 to the Present

The internal friction in the commission during Governor Graves' second administration made the conduct of the state-docks business one of the

issues in the gubernatorial campaign preceding the election of Frank M. Dixon. Governor Dixon took cognizance of the situation in his address to the legislature by declaring that:

As is usual with administrative boards, the State Docks Commission has not operated as a commission. One member has been forced to assume charge, to make decisions, and to operate the Docks. Jealousies and friction brought this condition about and the business of the Docks has suffered.

The remedy proposed by the newly elected governor was to abolish the commission form of administration and to substitute for it a state department. This change was accordingly made by the legislature.¹¹

Under the 1939 act, the Alabama State Docks Commission became known as the Department of State Docks and Terminals and the director of the department, appointed by the governor, was to exercise all powers and authority heretofore possessed by the commission. The power to appoint a secretary-treasurer and all other employees needed for the management and operation of the docks was also given to the director. His compensation was to be fixed by the governor, at not more than \$6,000 a year, and he was directed to report monthly to the governor on all his official activities as well as to make a full report to each session of the legislature.

The first incumbent of the directorship was C. E. Sauls, who still retains this position. Mr. Sauls was no newcomer to the state docks but had been associated with the organization since 1925, helping to build the docks and serving as assistant general manager for many years.

In addition to making provision for the director of the department, the act provided for an advisory board made up of the governor (ex officio), the director of the Department of State Docks and Terminals (ex officio), and three others appointed by the governor to serve without compensation, except for a per diem of \$15 and traveling expenses. This board is purely advisory and meets only upon call of its ex officio chairman, the governor. As a matter of practice, the board is called into session only once or twice a year, on particularly important matters, most policy matters that are not handled immediately by the director being settled by consultation between the director and the governor. The present advisory board, besides Governor Sparks and the director, consists of G. H. Lanier, president of the West Point Manufacturing Company, Lanett, Alabama, whose term expires in 1949; Robert Gregg, president of the Tennessee Coal, Iron and Railroad Company, Birmingham, Alabama, whose term expires in 1945; and N. Floyd McGowin, president of the W. T. Smith Lumber Company, Chapman, Alabama, whose term expires in 1947.

Seven officers are immediately responsible to the director in the existing organizational setup: the secretary-treasurer, J. H. Bruce; traffic assistant

¹¹ *General Acts of Alabama*, 1939, No. 12.

in charge of solicitation, M. C. Cunningham; traffic assistant in charge of rates and local solicitation, R. A. Alvarez; operating assistant and superintendent of the terminal railway and the bulk-material-handling plant, C. U. Irvine; engineering assistant in charge of land, insurance, contracts, and other general matters, L. H. Parrott; the harbor-master, Captain C. H. Smith; and the attorney (part-time), T. E. Twitty. Serving under the operating assistant are the operating executive officers in charge of the various units. These officers are M. A. Sproles, in charge of wharves and warehouses; George Gray, cotton warehouse; W. A. Carmichael, Jr., cold-storage plant; and J. P. Turner, bulk plant. The group also includes the purchasing agent, P. A. Sapp, and the heads of the maintenance and police departments.

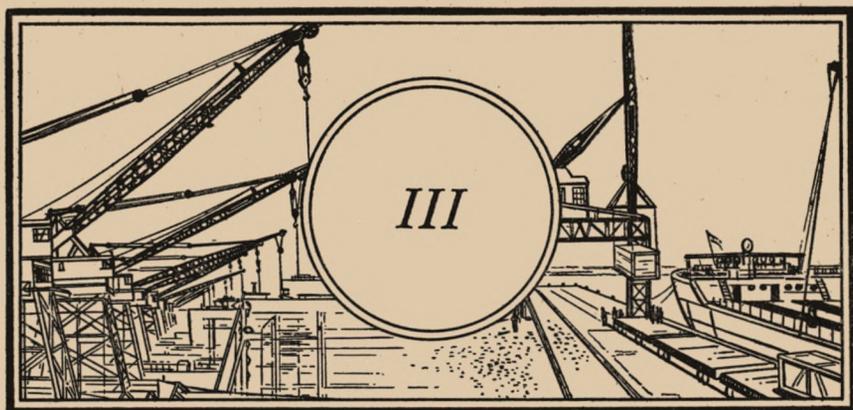
All employees of the State Docks, except the director and the employees of the terminal railway, are, of course, subject to the provisions of the state's merit system.

Most of the men now holding the administrative positions have been associated with the docks for many years and have come from employment in closely related industries. They are, therefore, men of experience. For this reason, it is not surprising that the present conduct of the department compares favorably in efficiency and smoothness of functioning with that of any other well-managed business and thus justifies the change that was made in 1939.

Conclusion

That the state of Alabama finally achieved a sound form of business organization for its docks-and-terminals system and avoided the dangers inherent in the commission form of administration is largely to be attributed to the kind of men who were chosen to serve as commissioners. In those periods when the commission was appointive by the governor, the docks administration could easily have become a haven for political appointees. The commissioners could readily have brought personal friends, regardless of ability, into their ranks when they were a self-perpetuating body. Divided counsels might have occurred more frequently within the commission and thus frustrated the carrying out of any consistent policy of development. These dangers were largely avoided through the sound business sense and public spirit of the men who served as commissioners. The quality of the various commissioners also made it possible to retain in the state's employ a staff of operating executives upon whose shoulders rested the practical problems involved in the management of a highly complex business.

With the wrong men at the top, the services of experienced men at the operating level might easily have been lost and their places taken by men of less experience or men chosen for their politics rather than for their ability. That this state enterprise escaped these dangers to so large an extent and emerged at last with a form of organization comparable in efficiency with well-conducted private enterprises was indeed fortunate.



FINANCING THE PROJECT

The fear of unwise and extravagant use of state funds, born of bitter historical experience, was reflected in the constitutional prohibition on the spending of state money or the lending of state credit in aid of internal improvements. This fear reappeared in the constitutional amendment of 1922 in the form of a limitation on the amount to be spent for the construction of state docks that the revision allowed.¹² The aggregate cost of the project was not to exceed 10 million dollars. This limitation, of course, was made effective in the 1923 enabling act.

According to the enabling act, the governor, with the advice and concurrence of the State Docks Commission, was authorized to execute and sell the state's bonds in an amount not exceeding the constitutionally prescribed 10 million dollars. Such bonds, designated as state harbor-improvement bonds, were to be issued in thousand-dollar denominations or multiples thereof, were to bear interest at not more than 5 per cent, and were to be sold at not less than par.

The bonds were made noncallable, a provision considered by some competent authorities as the gravest mistake made in the financing of the docks. The effect of this stipulation was to prevent the refinancing of the bonds at the lower rates of interest that subsequently came to prevail. The element of rigidity thus introduced into the docks financial operations has no doubt seriously impeded the administration in its efforts to make the docks entirely self-supporting.

The emission of the bonds was to occur only when money was actually needed to carry forward the work authorized by law, the act providing that only five million dollars worth of bonds could be sold, and the proceeds from the sale used, until such time as the facilities built

¹² *Constitution of Alabama of 1901, Amendment XII.*

TABLE 1
EMISSIONS OF BONDS SINCE PASSAGE OF
1923 ENABLING ACT

(Terms of payment, \$25,000 annually)

<i>No. of Issue</i>	<i>Date of Issue</i>	<i>Amount of Issue</i>	<i>Rate of Interest</i>	<i>Period of Payment</i>	<i>Premium</i>
1	June 1, 1924	\$1,000,000	4½	1934-73	\$28,500
2	Dec. 1, 1924	900,000	4¼	1934-69	4,525
3	Jan. 1, 1926	1,100,000	4¼	1933-76	2,650
4	June 1, 1926	1,000,000	4¼	1936-75	11,100
5	Dec. 1, 1926	1,000,000	4¼	1936-75	300
6	May 1, 1927	1,000,000	4¼	1937-76	32,200
7	Sept. 1, 1927	1,000,000	4¼	1937-76	17,100
8	Dec. 1, 1927	1,000,000	4¼	1937-76	} 64,050
9	Dec. 1, 1927	1,000,000	4¼	1937-76	
10	Apr. 1, 1928	1,000,000	4¼	1938-77	24,001

with these funds had earned enough to return 5 per cent on the investment. Furthermore, each issuance was to be in an amount no more than necessary to take up any current indebtedness and to pay the cost of carrying out plans that had been submitted to the governor and approved by him.

Bonds issued under the authority of this act were to mature within 50 years and were to be payable in equal annual instalments. The first of these instalments was to mature no later than 10 years from the date of issuance.

It was provided by the law that the revenues arising from the operation of the properties acquired or constructed should be used to pay operating expenses and, in addition, interest on the outstanding bonds as well as maturing instalments of the principal. But the payment of interest and principal was not dependent upon the sufficiency of such funds. If at any time these funds were insufficient for the purposes indicated, the deficiency was to be made up by the state treasurer from funds not otherwise appropriated. In other words, the harbor-improvement bonds were obligations of the state and not merely of the State Docks Commission or, subsequently, of the Department of State Docks and Terminals; the full faith and credit of the state were pledged for the payment of interest as well as principal.

In all, 10 emissions of bonds have been made since the passage of the 1923 enabling act. They are described in table 1. That the pledging of the state's full faith and credit for the payment of interest and principal on these successive emissions of bonds made them readily

marketable to banks and various investment houses is evidenced by the premiums, often of substantial amounts, that they commanded.

During the years of construction, of course, the docks did not earn enough to meet expenses and pay interest on outstanding bonds. Up to the end of the fiscal year of 1928, September 30, therefore, accruing interest was paid entirely from bond proceeds. For the fiscal year 1929, however, although \$86,379 interest was still being paid from bond proceeds, the State Docks Commission was able to turn over to the state treasurer a total of \$72,000 out of earnings for this purpose. But the state in that year had to make up a deficiency of \$269,120 out of other funds. From 1929 to the fiscal year beginning in 1936, although the State Docks Commission was able to remit substantial sums (approximately a quarter of a million dollars a year) on account of interest on bonds, the state also had to pay out large sums on account of interest as well as bond retirements that became effective in fiscal 1933.

For the fiscal year ending September 30, 1936, the State Docks Commission paid interest charges in full, and it has continued to do so every year since that time. The state, however, bore the full burden of bond retirements up to the fiscal year 1943, when the Department of State Docks and Terminals paid \$125,000, half the liability, out of earnings on this account.

During the whole period of 1924-43, the state of Alabama has paid out a total of \$3,208,902 on account of the state docks. Of this total, payments on account of interest charges amounted to \$1,408,902 while payments for bond retirements amounted to \$1,800,000.

When the Brookings Institution made its investigation of the Alabama State government in 1932, the report with respect to the state docks read:

Whether the construction and operation of harbor facilities at Mobile are of sufficient benefit to the people of the state as a whole to justify the comparatively large indebtedness incurred is a question which need not be here discussed. It does not seem probable that the State Docks will be able out of their earnings to pay for maintenance, operation, and necessary additions and as well to provide either for the service of the debt or for depreciation.¹³

As table 2 shows, the dubious forecast of the Brookings Institution has been justified only in part. From the beginning of their operation, the Alabama state docks were able, out of earnings, to pay operating expenses and provide for additions and betterments to the properties and, at the same time, pay substantial sums toward interest up to the fiscal year 1936. Since that year, they have been paying interest charges in full; from 1939 on, they have charged full depreciation on their books; and they shared equally in 1943 with the state in the burden of bond retirements.

¹³ Brookings Institution. Institute for Government Research. *Report on a Survey of the Organization and Administration of the State and County Governments of Alabama. Submitted to Governor B. M. Miller, 1932*, II, Part I, 128. (Washington, D. C., Brookings Institution, 1932).

TABLE 2

STATEMENT OF BOND INTEREST AND RETIREMENT MATURITIES, WITH AMOUNTS PAID THEREON BY STATE DOCKS COMMISSION AND BY STATE OF ALABAMA FOR FISCAL YEARS ENDED SEPTEMBER 30, 1924-43

Year	Interest	Retirement	Total	Paid by State Docks Com.		Paid by State
				From bond proceeds	From earnings	
1924	-----	-----	-----	-----	-----	-----
1925	\$ 64,125	-----	\$ 64,125	\$ 64,125	-----	-----
1926	106,625	-----	106,625	106,625	-----	-----
1927	215,000	-----	215,000	193,750	-----	\$ 21,250
1928	342,500	-----	342,500	342,500	-----	-----
1929	427,500	-----	427,500	86,379	\$ 72,000	269,121
1930	427,500	-----	427,500	-----	183,875	243,625
1931	427,500	-----	427,500	-----	253,813	173,688
1932	427,500	-----	427,500	-----	227,500	200,000
1933	426,968	\$ 25,000	451,969	-----	242,844	209,125
1934	425,906	50,000	475,906	-----	275,531	200,375
1935	423,188	75,000	498,188	-----	254,625	243,563
1936	419,938	100,000	519,938	-----	419,938	100,000
1937	414,563	175,000	589,563	-----	414,563	175,000
1938	405,469	250,000	655,469	-----	405,469	250,000
1939	394,781	250,000	644,781	-----	396,625	250,000
1940	384,094	250,000	634,094	-----	384,094	250,000
1941	373,406	250,000	623,406	-----	373,406	250,000
1942	362,719	250,000	612,719	-----	362,719	250,000
1943	352,031	250,000	602,031	-----	477,031	125,000
Less amount remitted in excess of interest maturities in 1939.....						-1,844
Total	\$6,821,313	\$1,925,000	\$8,746,313	\$793,379	\$4,744,031	\$3,208,902

Total interest for the above period \$6,821,313

Total bond retirements 1,925,000

Total interest and bond retirement \$8,746,313

Interest paid from proceeds from bonds \$ 793,379

Interest paid from earnings 4,619,031

Interest paid by state 1,408,902

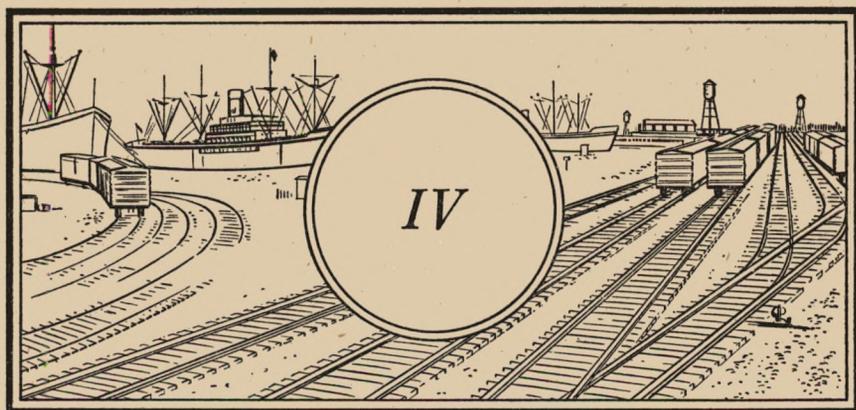
Principal paid by state 1,800,000

Principal paid from earnings 125,000 \$8,746,313

Whether the amortization of the original investment is a charge that should properly be considered before determining the economic justifiability of a public enterprise such as the state docks is debatable. Private enterprises are not in the habit of justifying their existence only when they amortize their original capital. Whatever the state has laid out in the form of amortization payments in the past, or will lay out in the future, represents an equity in an asset, which in 1943 earned \$378,001 net (after depreciation and interest) from its original units on an investment of 10 million dollars. If both the original units of the system and certain leased units, which are discussed later,¹⁴ are considered, the net earnings after depreciation and interest in 1943 amounted to \$567,326 on an original investment of 10 million dollars.

This record has been achieved during a period when the most disastrous economic collapse in modern times occurred. Moreover, some of the measures taken on behalf of recovery during those years, such as the restriction of cotton production, affected the docks adversely, and, in the same period, United States neutrality legislation blacked out one foreign-trade area after another.

¹⁴ See discussion, pp. 23, 26.



GROWTH OF THE PLANT

Before the dedication of the Alabama state docks in 1928, an event that marked a milestone in Alabama's commercial development, four years of construction were carried on under the supervision of General Sibert. During the course of this activity, the face of the land affected was literally transformed.

Three possible locations for the docks project were considered, the best of the three being one along the Mobile River just north of the city. The possibility of using this site depended upon whether tracks of the Louisville and Nashville Railroad that hugged the west shore of Mobile River could be relocated to the westward. This land's usefulness was also impaired by the fact that One Mile Creek cut across it before emptying into the river. Though they lay within the city limits, the three sites were essentially all swampland, except for the south bank of One Mile Creek and a portion of the south bank of Three Mile Creek. To make the preferred location or any of its alternatives usable, the level would have to be brought above that of hurricane tides, and this operation would require a great deal of excavation and filling-in. In the end, all these obstacles were overcome, and the first choice was the one actually acquired.

Negotiations with the railroad for the removal of its tracks were successful, the company expressing willingness to co-operate with the state provided its interests were protected. An agreement that the state would pay for rebuilding the railroad line was reached, but, if extra fill raised the roadbed above hurricane-tide level, the additional cost would be assumed by the railroad. Moreover, if One Mile Creek was to be diverted northward so that it would empty into Three Mile Creek and thus eliminate one railroad bridge, the road was to capitalize the cost of operating the bridge and contribute that amount to the state project.

TABLE 3

DISPOSITION THROUGH DECEMBER 31, 1926, RECOMMENDED AND ACTUAL, OF THE FIRST \$5,000,000 MADE AVAILABLE FOR THE STATE DOCKS BY THE ALABAMA STATE LEGISLATURE

<i>Unit</i>	<i>Recom- mended Expenditure</i>	<i>Actual Expenditure as of December 31, 1926</i>
1 Purchase of land and temporary loans; extinguishing leases; moving sawmills, filling, clearing, etc.	\$ 765,000	\$ 805,753
2 Moving L&N RR; diversion canal; remodeling M&O and So. RR yards	338,000	509,961
3a Pier 1 (exclusive of Transit Shed); Yard "A"; Interchange Yard; connecting tracks	972,000	483,330
3b Warehouse Pier 1; dredging slip and approaches; rolling stock and equipment; pier tracks; roadway, office and shops	609,000	
4 Cotton warehouse and compress	1,000,000	606,044
5 Pier 2 (exclusive of transit sheds and warehouses) . .	1,009,000	998,571
Reserved for interest	307,000	
Net interest paid		135,982
Construction equipment		584,856
Quick assets (cash in hands of state treasurer and in bank; accounts receivable)		875,503
	\$5,000,000	\$5,000,000

After the proposed site for the docks had been chosen, a board of appraisers, consisting of George Gordon Crawford of Birmingham, John W. Durr of Montgomery, and Gordon Smith of Mobile, was appointed by Governor Brandon to value the land. The basis on which the value was determined was the assessed valuation made for tax purposes, which, in Alabama is 60 per cent of the market value.

The land the state wished to acquire was thus valued at \$604,227, and most of the owners sold willingly on that basis, although a few condemnation proceedings had to be brought. In addition, a 100-foot right-of-way, running nearly four and a quarter miles northwest of Mobile, was obtained for the terminal railway to provide a route by which the Gulf, Mobile and Northern Railroad with its Burlington connection and the Alabama, Tennessee and Northern Railroad with its Frisco connection could enter the state docks. Any other railroad seeking to enter Mobile could do so over this route and would be able to make connections with all the other railroads, as well as with the docks.

The work of actual construction could not begin, of course, until the necessary land had actually been acquired, leases quieted, sawmills removed, the Louisville and Nashville tracks relocated, One Mile Creek

diverted by means of a canal into Three Mile Creek, and the Mobile and Ohio and Southern Railroad yards remodeled. Furthermore, the raising of the level of the land had to be completed. Earth for this purpose was conveniently obtained from the dredging of the industrial canal and the slips between the piers. Twenty-six months were thus consumed in making 566 acres of land ready for use, at a total cost of \$1,736,162.54, or an average cost of \$3,068 an acre.

The state legislature on September 18, 1923, had made available the first five million dollars authorized by the amended constitution. This sum was covered by the first five emissions of state bonds. The disposition of the funds as it was recommended by the commission and approved by Governor Brandon, together with the actual disposition of the money, is shown in table 3.

The only operating unit at the docks actually completed and in service by the end of 1926 was the cotton warehouse and compress. Although this facility was not completed in time to permit full participation in that year's cotton movement, 21,966 bales were received and 12,830 bales were compressed. Of the cotton received, 9,039 bales were stored and 12,927 were shipped. Because Pier 1 had not then been completed, the cotton had to be moved by truck from the state's warehouse to other docks for export.¹⁵

In its report to the legislature dated January 11, 1927, the commission enumerated the deficiencies existing when the first five million dollars had been spent:

On account of the lack of funds, no provision has been made for widening and deepening the channel in front of the docks system so as to provide maneuvering room for ships entering and leaving the docks; for building Pier 3; for warehouses on Piers 1 and 2; or for the installation of any facilities for handling special types of commerce other than cotton. Banana handling plants, coal handling plants, coffee and sugar handling plants, and a grain elevator are still unprovided for, as well as additional railroad yards for serving such facilities.

On January 17, 1927, the state legislature made available the remaining five million dollars authorized by the constitution. This action enabled the construction work to be carried to its conclusion on April 1, 1929. The final account of the total 10 million dollars showed that the state possessed property valued at cost as follows:

Piers, warehouses, transit sheds, and roads	\$ 6,844,396
Bulk-material-and-coal-handling plant	1,006,718
Terminal railway	1,308,940
Industrial lands	783,372
Operating plant for pilots	56,574
Total	<u>\$10,000,000</u>

¹⁵ During construction, the piers were referred to by number. Later, Pier 1 was designated as Pier A, Pier 2 as Pier B, and so on.

The piers and apron wharves were constructed of reinforced concrete and were built on concrete piling. Between them were slips having a width of 350 feet and a usable depth of 30 feet. Space was thus provided for the berthing of 18 ships at one time. Wharves were 1,600 feet long and 42 feet wide, each wharf having three marginal tracks with crossovers so placed that cars could be switched to and from one ship berth without interfering with operations at any other.

Some 29 acres of covered-warehouse and transit-shed facilities of steel and concrete construction were provided at shipside. These included the cotton warehouse with its high-density press at Pier 1.

The terminal railway connected all Mobile railroads with the docks and with each other. It also made possible the prompt shifting of cars to and from the docks and the classification and interchange yards. In an emergency, a car could be placed alongside ship within 30 minutes after its arrival in Mobile yards.

In addition to these accommodations, the bulk-material-handling plant provided facilities for the loading of outbound coal or similar cargo at a rate of 600 tons an hour and the unloading of inbound bulk cargo at a rate of 900 tons an hour. The lands not used for docks, warehouses, and railroad facilities were held as available industrial sites. In addition, a complete complement of mechanical equipment—such as switching locomotives, shipside derrick, locomotive cranes, lift trucks, motor trucks, tractors, and trailers—was provided for handling all types of cargo.

Since the completion of the docks system in 1929, many improvements and betterments in detail have been made. The most notable extensions were made in the 1930's through the co-operation of the city of Mobile and the Public Works Administration. Application was made in 1934 for PWA grants to cover three major improvements. These applications, subsequently approved by the Federal Government, provided for the construction of:

1. A pier and slip north of Pier 3. This facility would provide three additional ship berths and 120,000 square feet of transit-shed space. For this purpose the PWA made a grant of \$342,000 while the city provided the remaining \$421,000 by a bond issue.
2. A fertilizer plant. This plant was designed to give 50,000 square feet of storage space, sufficient for storing and handling 50,000 tons. The handling of material into and out of the storage shed was to be completely mechanized. For this purpose the PWA made a grant of \$135,000 while the city provided the remaining \$200,000 by a bond issue.
3. A cold-storage fruit terminal. This facility was to provide 500,000 cubic feet of storage space for a wide variety of perishable produce. (The State Docks Commission subsequently added a quick-freeze unit, now in the process of further expansion.) The cost of the cold-storage plant was covered by a PWA grant of \$396,000, the city providing the remaining \$484,000 by a bond issue. Of these bonds, the PWA took \$384,000.

MAP OF
ALABAMA STATE DOCKS
 MOBILE, ALA.

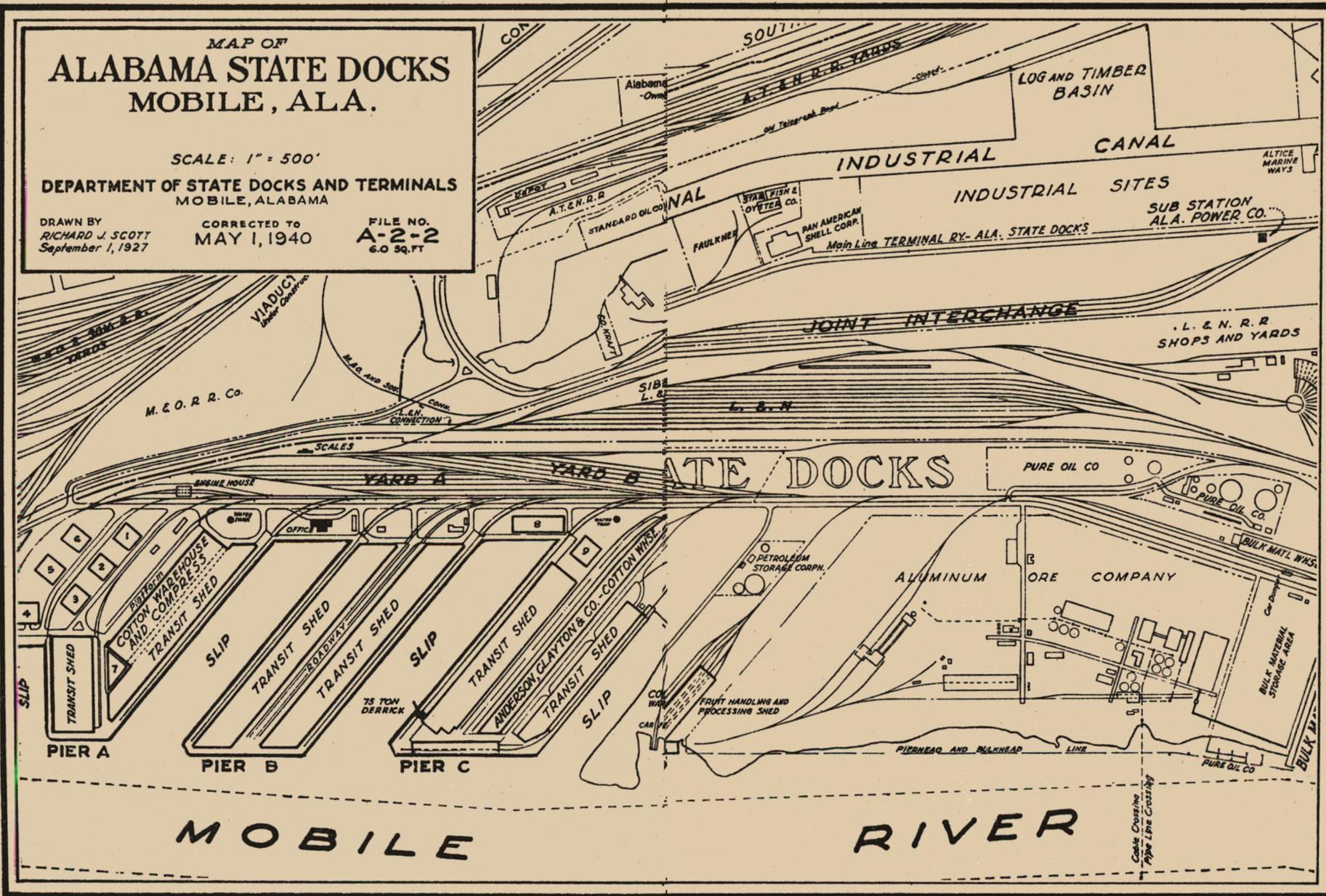
SCALE: 1" = 500'

DEPARTMENT OF STATE DOCKS AND TERMINALS
 MOBILE, ALABAMA

DRAWN BY
 RICHARD J. SCOTT
 September 1, 1927

CORRECTED TO
 MAY 1, 1940

FILE NO.
A-2-2
 6.0 SQ. FT.



The State Docks Commission assumed no financial liability whatsoever for the additions made through PWA assistance. These facilities, however, are operated by the state docks on a rental basis, and the rent received is sufficient to pay interest on all outstanding bonds and to bring about their amortization. When rent equal to the 55 per cent of the cost represented by the city's bonds has been paid, these facilities will belong to the state.

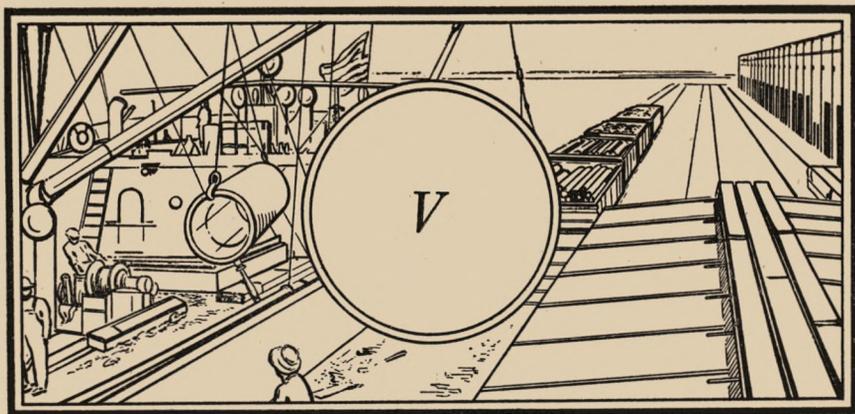
A somewhat similar arrangement was made in connection with the building of a ship-unloading tower by the largest user of the bulk-material-handling plant at a cost of \$225,000. This facility has been leased to the state and is operated by the Department of State Docks and Terminals with full right of use for any purpose and for all customers. The department credits to the lessor a part of the charge made for handling each ton of the lessor's material, and, when the total of such credits equals the cost of the tower, the installation will become the property of the state. This facility increased the capacity of the bulk-material-handling plant by 85 per cent.

Another acquisition on a rental-purchase basis was the cotton warehouse constructed by Anderson, Clayton and Company on a site that the company had leased on Pier 3. This acquisition has proved very useful in connection with the docks' contribution to the prosecution of the war.

In such ways, a considerable expansion of the state's facilities has come about with no further increase in the state's indebtedness.

More than 500 acres of land are now owned by the state, in connection with this project, as well as more than two miles of concrete wharves where 22 ships can berth at one time; 42 acres of covered warehouse space, including a cotton warehouse with a high-density compress; an equity leading to eventual ownership of a modern and up-to-date cold-storage and quick-freeze plant;¹⁶ and an industrial canal with sites for lease to tonnage-producing industries. The enterprise also has an extremely flexible system for the handling of bulk materials, having railway and switching facilities as well as mechanical equipment to bring about the handling of cargo to and from cars and ships with the utmost dispatch. The testimony of persons using these accommodations is that the state has provided at Mobile facilities equal if not superior to any in the country.

¹⁶ The quick-freeze plant is now leased to A. A. Richards Company.



OVERCOMING INITIAL DIFFICULTIES

The first and fundamental problem of the newly created state docks system, like that of any new enterprise, was that of making a place for itself in the economic life of the state and region.

The economy of a state or region may be characterized by some deficiency that provides the formal justification for the appearance of a new enterprise, private or public. A new enterprise never finds a wholly vacant area into which it can fit neatly without disturbing interests already there or without being disturbed by the pressures arising from its environment. If it is to occupy any economic space, a new project must elbow its way, in a sense, into the pre-existing economic context. In doing so, it encounters some circumstances that favor its survival as a going concern. Likewise, it encounters others that are hostile to its survival. The new enterprise also finds itself, through its own activity and irrespective of its intentions, benefiting some of the interests that occupied the field before its coming and injuring others. A new enterprise, therefore, does encounter difficulties in the practical world, despite the cogency of the reasons by which its existence is ultimately justified.

Terminal Charges

Nor did the state docks enterprise make unbroken progress. From the first, the state docks had two somewhat conflicting purposes to carry out. The docks were, of course, meant to serve the economic interests of the state and the hinterland, and the measure of that service would be the tonnage handled over the docks. On the other hand, the law creating the state docks clearly intended the enterprise to be self-sustaining and self-liquidating. To that end, the commission was given the right and power to fix reasonable rates and charges for services rendered so that the

docks might be able to pay operating expenses and interest on outstanding bonds and to provide a sinking fund for the redemption of the bonds. To help insure the remunerative character of the docks, the law also provided that:

... All private concerns, corporations, or individuals operating similar facilities at Alabama seaports must make and collect charges which shall be not less than the charges so fixed by the said department for the use of the state's facilities.¹⁷

As a matter of practice, the provision for equal charges was never enforced and was probably unenforceable on constitutional grounds. The commission thus faced a dilemma. Because charges at the railroad docks were on the whole levied on a nominal basis, the state docks would have lost tonnage to the railroad docks in Mobile or to terminals at other Gulf or South Atlantic ports if the commission had levied remunerative charges. If the commission kept its charges low enough to compete with railroad terminals at Mobile and at other ports, so that tonnage would be attracted to the docks, the enterprise would run a serious risk of losing money. The problem of fixing rates high enough to enable the docks to meet their financial obligations as far as possible without losing tonnage to other ports is thus a matter of fundamental policy and is of continuing concern to the department.

When the state docks began operations in 1928, most of the terminals at Gulf and South Atlantic ports were owned and operated by rail carriers. A terminal-charges tariff was in effect and was generally applicable to all these ports. The tariff had been published in 1919, and no general revision had been enacted, although some revision of individual commodity rates had been made. The terminal charges in this tariff (wharfage, storage, and handling) were very low, partly because of the lower cost of labor at the time the tariff was published but more especially because the railroads used their terminal facilities to attract export and import tonnage. Losses sustained in terminal operations were offset in the line-haul traffic to and from the ports.¹⁸ The rail carriers generally made no charges, such as dockage and sheddage, against vessels; all the rates published in their tariff were against cargo.

If the new state docks were to secure tonnage in the face of such competition, the existing tariff of the railroad terminals as it applied to cargo must necessarily be adopted. Since the railroads made no charge to vessels for their use of docks, however, no dockage charge was then assessed. This situation prevailed for the first four years of operations. The state docks then announced, after further analysis, a small dockage charge of a half a cent a net registered ton of vessel. The dockage and sheddage, or marginal-track-use, charges were then gradually increased over the years and came to be levied against the ship as a more appropriate

¹⁷ *Alabama Code of 1940*, tit. 38, sec. 32.

¹⁸ See discussion, pp. 6-7.

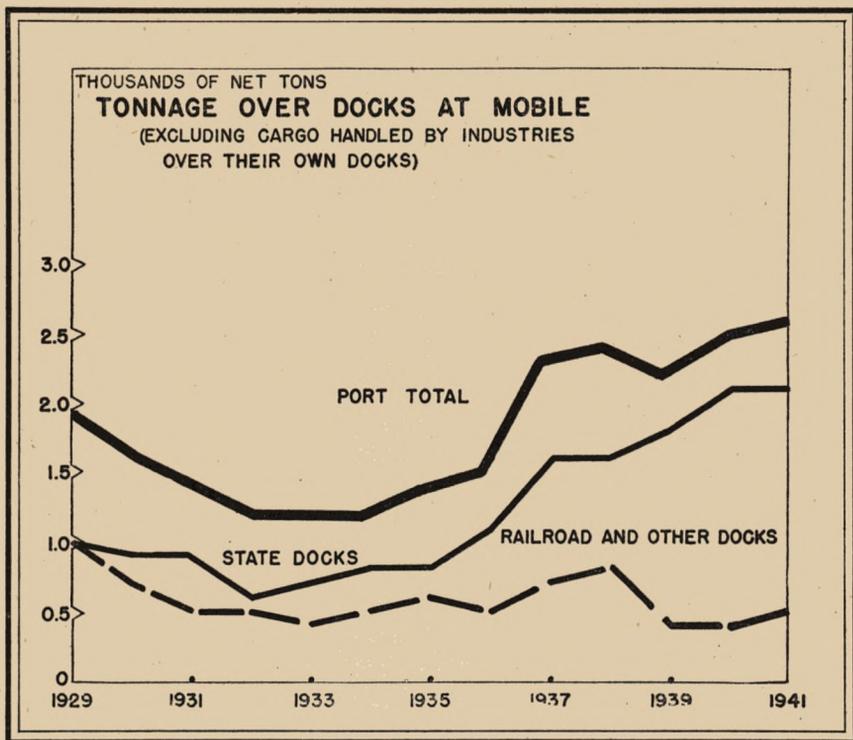


CHART 2

base. These are now: *Dockage*—3 cents a gross ton of vessel for the first and second days; 2 cents for the third day; 1 cent for the fourth and through the twenty-first day; after the twenty-first day, the schedule is repeated. *Sheddage*—3 cents a gross ton of vessel or hull ton of barge for a period of 16 days or less; 1½ cents for the seventeenth through the twenty-first day; beyond the twenty-first day, the schedule is repeated.

The terminal charges assessed at the state docks are now generally applicable at all terminals in Mobile. Meanwhile, however, the railroads have disposed of most of their properties to the city, the change occurring in December 1943.

If they charged the same rates for terminal services that the rail carriers did, the state docks would tend to have a competitive advantage on account of their superior facilities. This advantage would divert tonnage from the railroad docks unless the tonnage moved to them out of considerations other than cost. Chart 2, which shows for the years 1929 to 1941 the net tonnage of cargo moving over the state docks, over the railroad docks, and over others that were privately owned, exhibits clearly the tendency of the state docks to secure the overwhelming proportion of tonnage moving through the port. Indeed, the competitive advantage of superior facilities made possible the eventual imposition of

higher terminal charges at the state docks than were made at competing docks.

Under such circumstances, the docks of the rail carriers would be driven from the field in only a matter of time. Always unremunerative, these docks would become still more unremunerative with a loss of tonnage. An awareness of this possibility lay behind railroad opposition to the state-docks proposal when it was first made and fostered continued opposition on the part of some of the railroads even after the docks had been constructed. In the end, however, the railroads were probably benefited more than they were harmed. They stood to gain from any increase in rail traffic resulting from the improvement of the port, and, at the same time, they were relieved of the burden of maintaining unprofitable terminal facilities. If any loss in terminal operations under state auspices was sustained, the state itself would make good the deficits. Thus, the apparent contradiction in the answers of the railroad officials to the question of how they were affected by the coming of the state docks had some justification. The answers varied from "They drove us out of business" to "We are glad they came." At present the railroads give the state docks their full support and co-operation.

Although the injury to the rail carriers appeared to be more serious than it actually was, the injury to privately owned docks was unquestionably real. Unlike the railroads, private terminal companies had no other source of revenue to fall back on and necessarily had to earn their way. In the face of competition from railroad-owned docks, private terminal companies had ceased building and could remain alive only by rigidly curtailing expenditures for modernization and, to some extent, even for proper maintenance. To face existing competition, costs had to be kept as low as possible; and to keep costs low, overhead expense had to be kept at a minimum. The coming of the state docks threatened to make this situation permanent, and, consequently, the hostility of privately owned terminals came to be directed very bitterly against the new state enterprise. In the eyes of the terminal owners, this situation represented but another instance of the destruction of private capital by government competition.

The situation, however, had already become one in which the interests of the port and the state were not being adequately served. The privately owned facilities were deteriorating, and only the state itself had sufficient economic interest at stake to better the situation.

Freight Rates

Another of the problems confronting the state docks in making a place for themselves—one that has required continual attention by the docks authorities—was that of freight rates. The port through which commerce tends to move is determined to a large extent, although not exclusively, by the total cost of shipping commodities to their final destination. This cost is a composite, made up of terminal charges and freight rates.

Therefore, the nature of the existing freight-rate structure was a matter of much concern to the newly organized State Docks Commission.

After World War I, a final adjustment of freight rates had given to the Gulf ports a slight differential under the rates applying to traffic going to the North Atlantic ports from the Central Freight Association and Western Trunk Line territories. The railroads serving North Atlantic ports lodged a complaint with the Interstate Commerce Commission charging that the differential was a violation of law. Railroads serving Gulf and South Atlantic ports thereupon petitioned the ICC for relief from this violation, and the North Atlantic ports countered by attacking the entire differential that favored Southern ports. The State Docks Commission intervened, and, on January 6, 1931, the ICC sustained the rate advantage of the Southern ports on the grounds that, because of the greater distance of the Gulf ports from Europe, the differential was necessary to put those ports on a parity with the North Atlantic ports.¹⁹

In this case, a rate differential was secured that favored Southern ports as a group against those of another region. Instances arose, however, in which freight rates discriminated in favor of particular Southern ports, or against them. In such cases, the State Docks Commission was forced by its position to seek parity for Mobile when a freight rate favored another port and to oppose any equalization of rates when the differential was in favor of Mobile.

An example of a case in which the State Docks Commission obtained parity freight rates was one concerning cotton. For years, railroads had denied Mobile transit privileges on cotton and, in addition, had discriminated against this port in export freight rates. As a result, the greater part of its cotton business was gradually lost to other Gulf and South Atlantic ports. When the state constructed the docks, including the cotton warehouse and compress, an effort was made to correct the existing pattern. A complaint was filed with the Interstate Commerce Commission to have Mobile placed on a parity with competing ports with respect to rail freight rates, concentration and reshipping privileges, and compression at the port. In March 1930, the ICC handed down a favorable decision that removed the cause of this complaint.²⁰

On the other hand, the State Docks Commission has done much to maintain for the territory²¹ in which Mobile is located a freight rate on export, import, and coastwise traffic lower than the rates at competing Gulf and South Atlantic ports. This area within which Mobile possesses a favorable rate differential includes the highly important Birmingham

¹⁹ Alabama State Docks Commission Report to State Legislature, January 1931.

²⁰ Interstate Commerce Commission Docket 17000, Part 3. State Docks 1921. Alabama State Docks Commission Report to State Legislature, January 1931.

²¹ The boundary of this territory roughly runs north in Alabama, just west of the Florida line, then northeast to Montgomery and West Point, thence in a more northerly direction to a point just west of Atlanta. From there the boundary swings northwest to Athens, Alabama, and then in a long arc southwest and then southeast, biting into the eastern part of Mississippi and ending again at the Gulf just east of Pascagoula.

industrial district. Approximately 68 per cent of all cargo moved over the state docks originates in Alabama or is destined for points within the state, and much of this cargo is in transit from or to the Birmingham district. The differential enjoyed by Mobile generally amounts to from 50 to 55 cents a net ton under the rate to the competing ports of New Orleans and the South Atlantic.

The existence of this differential favoring Mobile has led to an effort on the part of competing ports to divert to themselves a large part of the traffic now flowing through Mobile by bringing about an equalization of freight rates. If such an attempt should meet with success, the state docks would suffer a serious blow. Thus far the effort has fallen short of its goal, but it has created a situation in which constant vigilance is required on the part of the state-docks authorities to maintain the port of Mobile's advantage. The administration of the state docks has from the first professed a policy of "live and let live," seeking merely such rates that it believes Mobile is entitled to and realizing that any unfair advantage that might be secured for itself would only serve to justify other ports in seeking lower rates into Mobile's own territory.

These, of course, are not the sole rate cases in which the state docks authorities have interested themselves. They are merely illustrative of certain competitive situations.

Other Competitive Factors

In making a place for itself, the state-docks system also confronted various practices of railroads and steamship companies that tended to curtail the usefulness of the state's new facilities. The railroads entering Mobile, for example, absorbed switching charges at the state docks on imported fertilizer destined for competitive points but failed to do so when the fertilizer was consigned to noncompetitive points. The State Docks Commission took this case to the Interstate Commerce Commission, and the latter handed down a final decision,²² ordering switching charges to be included in line-haul rates for competitive points as well as noncompetitive points. A similar case²³ was brought before the ICC with respect to other commodities on which the rail carriers were absorbing switching charges for competitive points but not for noncompetitive points. In this case, however, the ICC handed down an adverse decision, although the principle involved was identical with that of the fertilizer case.

The decision in the fertilizer case was of great advantage to many groups of farmers, but the adverse decision in the other case militated against the interests of many lumber shippers. Almost 85 per cent of the Alabama lumber moving to Mobile for export comes from noncom-

²² Interstate Commerce Commission Docket 3345. Alabama State Docks Commission Report to State Legislature, January 1931.

²³ Interstate Commerce Commission Docket 21341. Alabama State Docks Commission Report to State Legislature, January 1931.

petitive points, and the shippers were forced to pay \$3.60 a car in addition to the line-haul rate to and from the state docks.

Two other, more recent cases illustrate certain types of competition. In the first, steamship companies serving Eastern and Southern ports were found to be absorbing, in the ocean rate to Porto Rico, the rail differential enjoyed by Mobile. This practice had the effect of nullifying Mobile's geographical advantage. The state docks filed a complaint with the United States Maritime Commission, and that agency ordered the discontinuance of the practice by steamship lines at United States ports.²⁴

The other case was one in which railroads absorbed handling charges from open-top cars at a competing port but failed to make a similar absorption at Mobile. The carriers voluntarily endeavored to establish rules to discontinue the practice, but certain port interests protested. In the end, the Interstate Commerce Commission found the carriers' proposed rules justified, and the practice was stopped.²⁵

Solutions to the Problem of Competition

When the Alabama State Docks set out to make a place for themselves in the economy of the state and region, they thus became involved in a highly complex and competitive network of relations that was characterized by practices falling little short of so-called cutthroat competition. Competition was keen between regions, between ports, between railroads, between terminals, and between steamship lines. All such competition was further complicated by the somewhat exclusive, or preferential, relations of certain railroads to certain terminals, those of certain railroads to certain ports, and those of certain steamship lines to certain ports and terminals. A way of escape from the competitive maelstrom would clearly be to the interest of the state docks.

Locally, relief could be secured if the state could extend its control to the whole waterfront and establish a virtual monopoly of terminal facilities at Mobile. Efforts were made in this direction from time to time but never succeeded because certain private owners were reluctant to yield to what they thought was "socialism." The sale of railroad docks property to the city in December 1943, by eliminating one source of competition, went far to clarify the local situation.

With regard to the problem of bad competitive practice emanating from other sources, no solution has yet been found. If the railroads could have been induced to separate terminal charges from line-haul charges and if they had then been required to operate the terminals on a paying basis, the results would have improved the situation. The Inter-

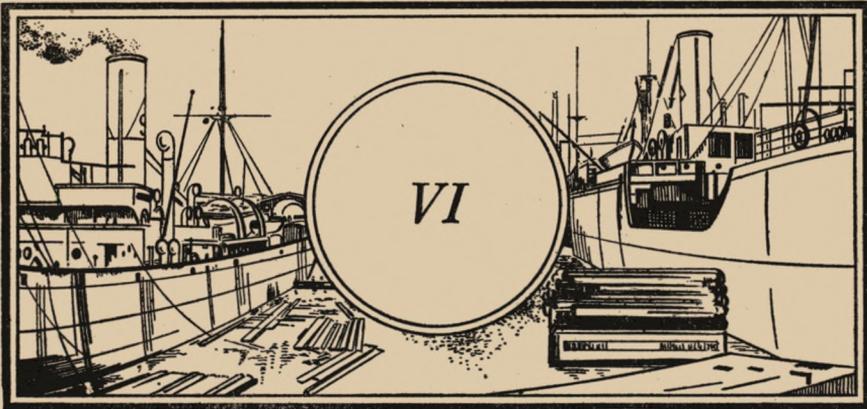
²⁴ Fifth Report of the Department of State Docks and Terminals to the Legislature of Alabama, Mobile, January 1, 1943.

²⁵ *Ibid.*

state Commerce Commission made an investigation of this suggested change but rendered an adverse decision, six to five against it.²⁶

Another avenue of escape would be provided if the terminal people at all competing ports would get together and publish uniform compensatory rates and charges. Joseph B. Eastman, then Federal Co-ordinator of Transportation, sought to bring about such co-operation, for he saw railroads dissipating a part of their earnings on their terminals, but, after a survey of the existing situation, he gave up the task as impossible. For the present, then, the welfare of the port of Mobile and the state docks depends upon the constant vigilance of the docks officials in maintaining and extending the position that has thus far been won for this state enterprise.

²⁶ Interstate Commerce Commission Docket 12681, 1924. Alabama State Docks Commission Report to State Legislature, January 1931.



ATTRACTING BUSINESS

Solicitation

A successful adjustment to a highly complex system of competitive price relationships, such as that described, would, of course, tend to increase the flow of tonnage across the state docks. The docks would thus be enabled to fulfill their economic function even though they might fall short of meeting their financial obligations as envisaged by the legislature.

No enterprise, however, private or public, can afford merely to bring its charges into line with those of competitors and make no further effort to obtain business. The flow of commodities is never automatic. Every private enterpriser realizes the necessity for advertising and for using other methods of directly soliciting business. The reason for such solicitation is that the direction of trade is influenced not only by strictly economic considerations but by inertia, ignorance, customary connections, prejudices, and the actions of intermediaries whose interests may lie in diverting the course of trade from what would seem to be its most logical and economical channels.

The State Docks Commission early realized the necessity for engaging in a program of direct solicitation of business so that the advantages of Mobile and especially of the state's new facilities might be placed directly before shippers and receivers of water-borne tonnage. Such a program was specially imperative because other ports, steamship lines, and railroads maintained agents in the field actively soliciting business for themselves.

It was realized by the State Docks Commission that much heavy cargo, such as steel and iron, cast-iron pipe, lumber and logs, cotton and naval stores, would naturally be available. Even before the docks were completed, an intensive solicitation campaign for other tonnage of higher class and lighter articles was initiated to supplement these heavier

materials as cargo for ships. This solicitation carried on in the earlier years by the State Docks resulted in much new business for the port, such as newsprint brought from Canada by ship for the use of Southern newspapers, bagging from India for cotton covering, tobacco from Kentucky and Tennessee for export through Mobile to foreign countries, imported beet seed to Colorado, and marble to Minnesota. The traffic included steel and farm machinery shipped out from Chicago, sulphate of ammonia from Gary, bauxite ore from British Guiana, cork from Spain, peat from Holland and Germany, asbestos shingles from Belgium, beet pulp from Holland, salt cake and iron oxide from Germany. These new tonnages for Mobile gave encouragement to those who hoped that the city would become a port serving not only the interests of Alabama but those of many other states in the Union.

In the early years of its life, the State Docks Commission encountered an obstacle in carrying out an aggressive campaign of solicitation. This hindrance was in the form of a general law that had been passed by the legislature in 1933²⁷ as part of a general retrenchment in state expenditures during the low-water mark of the depression. The law limited traveling expenses of state employees to \$3 per diem. According to reports, the governor at that time, B. M. Miller, had not thought that this limitation would apply to the state docks, but even when he discovered that it did, he rigidly enforced it. Three dollars a day was utterly inadequate for travel and subsistence, and the result was that the State Docks Commission could not send out anyone to solicit business or even, at times, send representatives to rate hearings.

Not until 1935 was this limitation removed and active solicitation involving travel out of the state resumed. At that time, a representative of the state docks was sent out on a trip, beginning in New Orleans, for the purpose of securing more tonnage for the docks. The trip led on to Memphis, the Mississippi delta region, and Jackson, Tennessee. This territory was one in which Mobile and other Gulf ports were on a basis of freight-rate parity. For this reason, the competition among the various ports and the various steamship lines was especially keen. The same sort of situation also prevailed in the St. Louis, Chicago, and Louisville territories where, however, river competition with rail lines placed Mobile at a disadvantage with respect to certain kinds of commodities.

New York, the last major stop on this trip, was especially important, for more potential Mobile tonnage was controlled out of that city than out of any other one place except Birmingham. Most of the railroads maintained offices in New York with special representatives to work on export and import business. Most of the steamship companies operating to foreign countries from the Gulf also had their main offices in New York or were at least represented by agents and suboffices there.

Although the trip yielded a certain amount of tonnage that was definitely promised to the state docks, its most important product was

²⁷ *Alabama Laws*, 1933, p. 81; *Alabama Code of 1940*, tit. 41, sec. 154.

probably the fund of helpful information that was accumulated. Such information would enable the docks officials to handle intelligently situations that might give rise to business in the future.

For one thing, this trip showed that shippers, importers, steamship companies, and railroad representatives had only limited knowledge of the state docks and their facilities. Through the personal contacts made on the trip, these interests were acquainted with the advantages offered by the state of Alabama at its seaport.

For another thing, the trip uncovered certain handicaps that would have to be overcome if Mobile was to get a larger share than before of the tonnage arising from its logically tributary area. Tobacco shippers in the Louisville area had used other ports so long, for example, that only the most persistent cultivation would induce them to consider using Mobile as a port. This condition also applied to some extent in the hardwood-lumber district, where railroads serving competing ports and competing steamship agents were very active.

Besides inertia of this sort, a problem of prejudice existed in the case of cotton, although the reason for the prejudice was not apparent. Mississippi delta cotton, because it was superior to Alabama cotton, had long had a more favorable reputation with receivers in Liverpool, Bremen, Havre, and Rotterdam. The delta cotton had been exported mostly through the port of New Orleans. Exporters were saying that they were afraid to use the Mobile port for fear the foreign buyers would think they were getting Alabama cotton instead of delta cotton, associating the port with the point of origin of the cotton. This difficulty could be easily overcome by specifying the point of origin of the cotton on the ocean bills of lading. In this way, no question could remain in the buyer's mind of whether or not he was getting the cotton specified in his contract.

The trouble, however, possibly did not actually lie with the foreign buyers but rather in old-established relationships between American exporters and certain forwarding agents. If these relationships were the real reason for the reluctance to export through Mobile, more intensive work would have to be done on the shippers by state-docks representatives.

Events played into the hands of the state docks to some extent when a strike tied up one of the Gulf ports while this first solicitation trip was in progress. Some shippers who had never before used the Mobile facilities now shipped through that port. The docks representative was alert to take advantage of this opportunity to familiarize the shippers with the benefits of continuing to use the Alabama port. Mobile's advantages were pointed out to shippers who combined coastwise and export shipments of cotton in one car in order to avail themselves of carload rates. At other ports, where consignees' piers might be at a considerable distance from each other, a drayage charge was usually made and, in addition, a forwarding charge for the handling of such shipments. At Mobile, the cotton could be delivered to the respective steamship companies' piers at the state docks with a saving of drayage, and, furthermore, the steamship

companies made no charge for checking and forwarding. This delivery could be secured by an addition of but 2 cents to the depot freight rate. As a result of the tangible advantages that Mobile possessed for certain cotton exporters and the educational work of the state-docks representative, increasing amounts of delta cotton began moving by way of Mobile.

Another problem brought to light in the course of this first solicitation trip was the influence of stevedoring companies in the routing of certain commodities to terminals with which they apparently had preferential connections. Sometimes the stevedoring companies controlled the routing of freight where the consignors had inadequate knowledge of the advantages that the use of the state docks might have for them. By working on the consignors, the connection between a stevedoring company and a particular terminal could possibly be loosened and tonnage thus diverted to the state docks.

This solicitation trip therefore revealed a number of problems. The results were deemed so important that the department now feels justified in having the traffic assistant to the director of the department and another representative spend a large part of their time on the road. That time is given to visiting exporters and importers and steamship and railroad agents; getting information on commodity movements; and endeavoring to direct as much freight as possible to Mobile and the state docks. During the present war, when the Government is controlling almost all commodity movement, similar visits must be made to various Government agencies.

The solicitation of business for the port of Mobile is not confined to efforts of the state-docks representatives alone, for the port also profits from similar activity by railroads, steamship lines, and stevedoring companies. Moreover, it is not merely one or two representatives of the state docks who are instrumental in increasing tonnage for the state's facilities, but all members of the organization who work closely with these other agencies serve continuously in the performance of this function.

Latin-American Campaign

Shortly, before the beginning of World War II, a solicitation campaign, international in scope, was undertaken by the state docks in co-operation with the Mobile Chamber of Commerce and other port interests. The Pan-American committee set up to carry out this campaign had for its objective the fostering of business relations between Latin America and Alabama. It pointed out to the people of Latin America the advantages of trade in Alabama and the facilities provided at the state's seaport.

Several thousand letters, written in Spanish, Portuguese, and English, were sent to a carefully selected list of businessmen in South and Central America and the West Indies. The state chamber of commerce supplied directories of Alabama manufacturers, and these were distributed to the firms with which contacts were made by the Pan-American committee.

In addition, special Pan-American columns were run in the state docks' shipping bulletin.

It is believed by those concerned that this campaign has advanced the port's business relations with its Latin-American neighbors. The war, with its attendant dislocations, however, makes a determination of the actual results of the effort difficult.

Foreign-Trade Zone

The Latin-American campaign was really part of another experiment for bringing a larger tonnage to Mobile and the state docks. This experiment contemplated the establishment on state-docks property of a foreign-trade zone, or free port.

By the so-called Celler act,²⁸ Congress in 1934 had authorized the establishment, within the territorial borders of the United States; of these foreign-trade zones.²⁹ The object was to establish areas in which goods coming from foreign countries could be assembled, broken up into small lots, sorted, graded, cleaned, blended with other goods—foreign or domestic—and otherwise manipulated within certain limits. No duty was to be paid on such goods until they entered domestic commerce. If they were reshipped into foreign commerce, no duty at all was to be paid. At the urging of Governor Graves and some of the Alabama delegation in Congress, the State Docks Commission made application in 1935 to have a zone established at Mobile. The docks authorities were divided on the wisdom of obtaining such an authorization, but the application was made despite counter-arguments.

The establishment of a foreign-trade zone meant the isolating, fencing, lighting, and policing of a suitable area having adequate pier and warehouse facilities. For this zone, 15.3 acres, of which 12.7 were land and 2.6 water, were set aside at the state docks. This area embraced the south side of Pier A and the adjacent upland and contained one slip 220 feet wide by 560 feet long, with a depth of 30 feet below mean-low water. Seven warehouses within the tract provided a total of 238,200 square feet of floor space. The main warehouse located on the pier itself, accounted for 136,800 square feet. This facility was equipped with an automatic sprinkler system, which kept insurance rates low. The area was served by two railroad tracks.

With such facilities to offer, Foreign Trade Zone No. 2 was granted an application and was formally opened on July 21, 1938. The Latin-American campaign was an effort to bring the zone, as well as the state docks, to the attention of other American nations. A representative of the zone made a personal visit to the capitals and ports of Panama, Costa Rica, Nicaragua, Spanish Honduras, El Salvador, Guatemala,

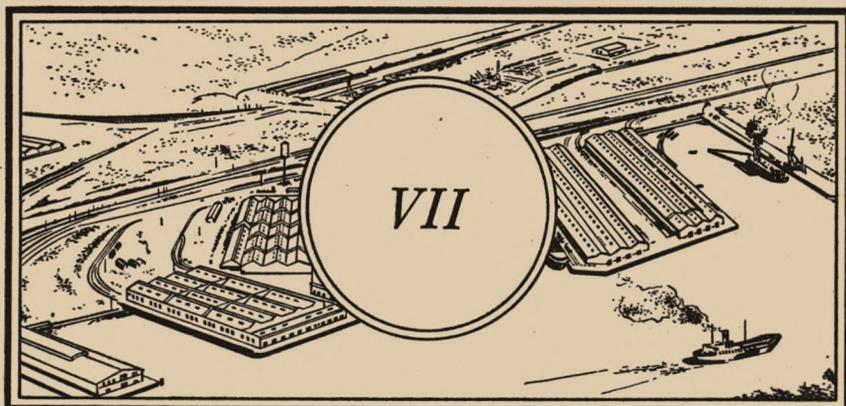
²⁸ *Act June 18, 1934*, c. 590, 48 Stat., 998; 19 U.S.C.A., sec. 81a *et seq.*

²⁹ The first of these free ports, known as Foreign Trade Zone No. 1, was established in 1937 at Staten Island, New York.

Mexico, and Cuba. Visits were made to large importers in the central United States. Sponsors of the experiment were optimistic about the future.

The skepticism of those persons who had little faith in the experiment was soon justified by the financial results. More than \$7,000 had to be laid out on the initial survey. Almost \$8,000 was consumed in other expense before the facility was opened. Capital expenditures had slightly exceeded \$20,000. Moreover, monthly deficits ranging from \$2,500 to almost \$4,000 began to accumulate. By February 28, 1939, the total and final outlay was \$59,600 on account of the foreign-trade zone. For the fiscal year ending September 30, 1938, the zone brought in a revenue of only \$9.43. Expenses for that year amounted to \$8,848. For the fiscal year ending September 30, 1939, the revenue was only \$1.32. Expenses had been \$29,694.

The commerce moving through Mobile was clearly not of the kind that would find the privileges of a foreign-trade zone to be advantageous. Wisdom dictated the liquidation of the venture, and it was terminated early in 1939.



CREATING NEW BUSINESS

Establishment of New Industries

The tonnage attracted to the state docks by competitive methods was of great value. Presumably, however, this same tonnage would have moved by other channels if the state's facilities had not been in existence. Though the diversion undoubtedly benefited the state docks and the port of Mobile generally, this gain was probably offset to some extent by the tonnage losses sustained at ports and terminals from which the traffic might have been diverted. Whatever social gain was provided by this process lay in the difference between the cost of moving goods by way of Mobile and the state docks and the cost of moving them by some other route.

From the standpoint of the state docks, tonnage gained through competition rested upon a precarious foundation, because it could be lost in the same way. The retention of tonnage gains called for continual watchfulness, and their enlargement demanded unremitting sales effort. A more stable source of tonnage would be industries established in the vicinity of the docks for which the docks could provide facilities of obvious advantage. A large tonnage-creating or tonnage-using industry, once it had been established, would be unlikely to move and would in all probability be a continuous user of the state's facilities. Thus the permanent prosperity of the docks was intimately related to industrial growth.

The possibility that the state docks would be instrumental in attracting industries that would benefit not only the docks but the whole state as well was envisaged from the beginning. To achieve this purpose of attracting new business, the State Docks Commission was given the right to lease to other interests the state land that was under its control and that was not used for docks, terminals, or terminal railways. This action

meant that a large part of the upland, especially the land bordering the Industrial Canal that diverted One Mile Creek into Three Mile Creek, could be used for potential plant sites. Moreover, the law provided that if lands were leased in this way, all real estate and also "all structures and all improvements and all other permanent facilities erected, installed or located, by lessees, or their successors or assigns, within the boundaries aforesaid, shall be free and exempt from all state, county and municipal taxation for such period as may be stipulated in the lease or in any renewal thereof, but not longer than the terms of the lease or its renewal."³⁰

The state-docks authorities were thus furnished with three inducements to the location of industries: (1) the port facilities provided by the state; (2) the ability to provide industrial sites easily accessible to water and rail transportation; and (3) tax exemption within the limits established by law. Although the location of an industrial plant is the result of a decision that must take many factors into account, the inducements provided by the state docks were instrumental in attracting a small colony of large tonnage-producing industries.

Southern Kraft Corporation

The first to settle in the industrial colony was the Southern Kraft Corporation, a subsidiary of the International Paper Company, the world's largest producer of paper. One of 11 plants operated by what is now known as the Southern Kraft Division of the parent company, this factory was established in Mobile in 1928.

The site occupied by this paper mill consists of 95 acres of land lying north of the state docks. This land was not originally a part of the state-docks property but was purchased for \$90,000 by Mobile citizens who were interested in having the paper mill established in the city. They then sold the land to the state, for a nominal sum, and the acreage was subsequently leased to the International Paper Company at a nominal rental. The paper company's lease, running for a period of 99 years, carries tax exemption until September 30, 1948. The company is obligated to use the state docks and the facilities of the state's terminal railway, until September 30, 1948.

Improvements put on this site by the International Paper Company have now an estimated value in the neighborhood of 10 million dollars. The mill is engaged in the making of kraft paper from Southern pine and is a large user of the state docks.

In the case of this industry, the proximity to raw materials combined with other factors to determine the location. Some of these factors were the shipping and rail facilities provided by the state docks, the provision of a suitable site at a nominal rental, and tax exemption. How the various

³⁰ *Alabama Code of 1940*, tit. 38, sec. 19. The tax-exemption feature of this law is now inoperative, owing to a policy initiated by former Governor Dixon and adhered to by the present governor.

factors were weighted in the minds of those responsible for locating the plant cannot be known.

Terminal Paper Bag Company

A plant of the Terminal Paper Bag Company was established in Mobile in 1935. This company is a New York concern and is affiliated with the Trinity Bag and Paper Company, although the exact nature of the relationship is not clear.

This plant leases its building site from the International Paper Company and secures its paper from the same concern. The plant manufactures paper bags and other paper products, which are sold chiefly east of the Mississippi River to jobbers and chain grocers.

The relation between the state docks and this company is indirect. The state docks, among other things, attracted the paper mill, and the paper mill in turn attracted the bag plant. The plant of the bag company represents an estimated investment of \$500,000.

Meyercord Compound Company

The Meyercord Compound Company was established in Mobile in 1937 and began operations in the following year, manufacturing built-in panels from imported hardwoods by a process patented by George R. Meyercord, one-time president of Haskelite Corporation of Grand Rapids, Michigan. After it was established, this company became a subsidiary of Haskelite but subsequently resumed its status as an independent concern.

The plant lies just south of Mobile. Although the state docks exerted no immediate influence on the location of the plant, the general development of the port undoubtedly did have some influence.

Aluminum Ore Company

The largest installation in Mobile's industrial colony, the Aluminum Ore Company's plant for the reduction of bauxite to alumina, was also established in 1937. This company is a subsidiary of the Aluminum Company of America, a Pittsburgh concern that is the nation's largest producer of aluminum. The Aluminum Ore Company buys its bauxite from other Alcoa subsidiaries—Republic Mining & Manufacturing Company of Arkansas and the Surinamsche Bauxite Mattschappia of Surinam, or Dutch Guiana, in South America.

The facilities available at the state docks must have appealed very strongly to this company because of the type of business in which it was engaged. In addition to affording dock facilities for ships bringing in the South American bauxite, the state also provided rail facilities for trains bringing in the Arkansas bauxite. The bulk-handling plant was excellently adapted to the handling of the kind of cargo that was being brought in by the Aluminum Ore Company. The mere existence of

the state's facilities would probably have been enough to determine the location of this plant. So important was the plant, however, that the state took no chances on having the establishment fail to materialize but provided the ore company with a 78-acre site on docks property at a very nominal rental for a period of 99 years. The lease carried tax exemption for a period of 20 years, and an agreement was reached by which the bulk-material-handling plant would care for all bauxite going to the Aluminum Ore Company. The docks terminal railway would switch, to the railroads serving Mobile, the outbound cars of finished alumina.

The Aluminum Ore Company now has an investment on state-docks property estimated at 12 million dollars. This figure takes no account of any investment that the Government may have made in connection with the war.

National Gypsum Company

The National Gypsum Company, a firm with headquarters at Buffalo, New York, established a plant in Mobile in 1938. This company has many widely scattered plants that specialize in various products such as gypsum, lime, accoustical and insulation materials, metal lath, and texture paints. The Mobile plant, which produces a fiber insulation board, represents an estimated investment of two million dollars.

In this case, as in that of the Meyercord Compound Company, the state docks were not immediately concerned in the location of the plant. The development of the port and the proximity of raw materials, however, were probably important factors in the company's decision to establish a plant at Mobile. Interested citizens also played a part by contributing \$50,000 to the purchase of the plant site.

American Cyanamid and Chemical Company

The following year, 1939, saw the establishment of a plant of the American Cyanamid and Chemical Company. This company is a subsidiary of the American Cyanamid Company of New York. At many widely scattered plants, this subsidiary produces acids and other heavy industrial chemicals, commercial explosives, and insecticides. At the Mobile plant, the products consist of aluminum sulphate, salt cake, and sodium sulphate—all of which are used in the manufacture and bleaching of paper at the near-by paper mills. The raw materials—sulphuric acid from Shreveport, bauxite from Arkansas, and soda ash from Baton Rouge—come in by rail.

In this case the state docks exercised only an indirect influence on the location of the plant. The docks had helped to induce the location of the paper mill, and the paper mill had attracted the chemical plant as it had the Terminal Bag Company. But, the state docks do render a direct service to the chemical company by means of the terminal railway's facilities. The estimated investment of the American Cyanamid and Chemical Company in the Mobile plant amounts to \$250,000.

Pan American Shell Corporation

In July 1939, the Pan American Shell Corporation leased from the state docks a five-acre site lying between the terminal railway and the Industrial Canal. The lease runs for 15 years and carries no provision for tax exemption.

The Pan American Shell Corporation, a New Jersey concern, is engaged in the manufacture of activated carbon, vegetable oils, and fillers used in the plastic industry—products made from cohune nuts brought in from British Honduras, where the nuts are gathered under exclusive rights. The concern now has an estimated investment of \$250,000 on state-docks land. In this case, the port facilities provided by the state were probably the chief reason for locating the plant at its present site.

Hollingsworth and Whitney Company

In the following year, another large paper mill was added to the industrial colony. This was a branch plant of Hollingsworth and Whitney, an old Boston firm that makes various specialty papers, potato bags, and multi-walled shipping sacks. At Mobile, the concern manufactures Southern kraft paper and pulp as well as white pulp.

Representing an estimated investment of six million dollars at Mobile, the Hollingsworth and Whitney plant was located there for substantially the same reasons that the International Paper Company was, except that the site was acquired without any outside inducements. Like the International Paper Company, this mill is a large user of the docks and the terminal railway.

Bemis Brothers Bag Company

Just as the International Paper Company's plant attracted the satellite plant of the Terminal Bag Company, so did the building of the Hollingsworth and Whitney mill attract a satellite bag mill—a plant of the Bemis Brothers Bag Company of St. Louis. This concern is reputed to be the largest producer of cotton and paper bags and burlap sacks in the country. Its plants are scattered over all sections of the United States. At the Mobile factory, laminated paper bags for cement are made. This bag company leases its site from the Hollingsworth and Whitney firm and also gets its paper from that concern. Investment in the Mobile plant is estimated at \$100,000.

Hallett Manufacturing Company

Another tenant on state-docks land is the Hallett Manufacturing Company. An old Alabama corporation, the company leased 10 acres of land from the state docks in March 1941. In normal times, the concern manufactures hardwood lumber, molding, and trim mainly from wood cut on its own timber lands. A large part of its output goes into the export trade.

Hence, the facilities of the state docks go far to explain the presence of the Hallett company on that site. An estimated \$300,000 is invested there by the company.

Other Companies

Installations of the Pure Oil Company and the Petroleum Storage Corporation are also situated on state-docks property. These are not strictly industrial plants but are for storage purposes and for the fueling of oil-burning vessels.

In addition, steam-electric generating plants of the Alabama Power Company are located near the docks property. Although these plants make no use of the docks themselves, they are serviced by the terminal railway and they supply power to other industrial plants located on the docks property.

The terminal railway, in addition to furnishing switching facilities at the docks and to the industries located on its line, also connects the railroads entering Mobile with the two large shipyards now building tankers, dry-cargo ships, destroyers, and mine sweepers. Switching connections of one of the railroads are made by means of a car ferry to Blakely Island.

Summary

The state docks have either directly or indirectly influenced the location of plants, excluding this latter miscellaneous group, that have a total investment of more than 32 million dollars in Mobile.

These plants cannot be called large employers of labor, but they are large tonnage producers; and tonnage is a major concern of the docks. Nevertheless, if the activities closely related to the growth of tonnage and, hence, of shipping were considered, the total growth in employment resulting from the development of the state docks would probably be of some significance to a city of the size of Mobile. Besides the persons employed directly in the industries that have come in, additional workers are employed by railroad and stevedoring concerns, warehouse and ship-repair plants, steamship and trucking companies. Each of the enterprises creates employment not only within itself, but also, to a greater or lesser extent, within those industries that lie within its sphere of influence. Every industrial enterprise may be thought of as the center of a series of concentric circles, in which are found the other industries that are influenced by it. Those most influenced are nearest the center, and those least influenced are farthest from the center.

This pattern of development has already been suggested. The state docks directly attracted certain plants, such as the Aluminum Ore Company and the paper mills. Some of these—the paper mills, for instance—have attracted others, such as the bag mills, that have served as a market for part of the output of the plants that drew them to the site. They have also in some cases attracted plants, such as the chemical company, that

have supplied them with some essential commodity. Still further removed from the docks in point of influence lie the new plants, such as the National Gypsum Company and the Meyercord Compound Company, which were attracted chiefly by the general port development. Previously existing industries that stand to benefit from any development of the port also fall within this group. Around the whole industrial complex appears a growth and expansion of service trades and occupations.

How far such influences radiate is hard to say, for the greater the distance from the initial economic impact (in this case, the state docks) the greater is the likelihood that other considerations may have played the predominating role. It is reasonable to conclude, from the situation in Mobile, that the whole state must have profited to a considerable, if indeterminate, degree in its industrial development because of the state docks.



RESULTS AND CONCLUSIONS

What have been the results to the state docks themselves, to Mobile, and to the state of Alabama from the creation of this new enterprise? The appraisal of the results of an enterprise of this magnitude would seem to be an easy matter, but actually such an appraisal must be highly tentative in character because in any social and economic complex all the factors are interdependent. In a changing situation, it is ultimately impossible to segregate any one factor as a cause and to impute to it, as effects, other changes in the total situation. The reasoning that is appropriate to the scientific laboratory is not applicable to social and economic analysis, in which the technique of the controlled experiment cannot be used.

Results to the State Docks

The results of a business enterprise's activities and policies and, hence, the test of its soundness are presumed to be reflected in its statements of operations in terms of price and cost. All price and cost factors affecting a firm's operations come to a focus in its net-earnings position; and the relation of its net earnings to the investment that has been made in the enterprise measures the business' profitability. The net-earnings position, however, is affected not only by what the enterprise does but by innumerable outside influences. These various influences cannot be segregated, and, consequently, financial statements can always be read from more than one point of view.

Thus, the operations of the state docks may be interpreted in various ways. From one standpoint the docks enterprise can be considered very successful, in view of the difficulties encountered in the early years of its life. The decline of United States exports from \$5,241,000,000 in 1929 to \$1,675,000,000 in 1933 could hardly leave the Alabama seaport unaffected.

Moreover, the reduction in cotton exports as a result of crop curtailment under the Bankhead Act and Government loans on cotton in interior warehouses was bound to affect all cotton ports as a kind of commercial disaster. For the three months ending October 31, 1934, cotton exports from the United States amounted to only 1,363,016 bales, compared with 2,444,695 bales in the corresponding period of the previous year, which was already a subnormal season.

Also, at times during the period from 1930 to 1935 manufactured products from the Birmingham district, the most important source of tonnage for the state docks, almost ceased to appear in Mobile. Not only outgoing commerce, but imports as well—especially manganese ore and other raw materials for which the state's bulk-material-handling plant had been specially designed—were seriously affected. Similarly, the violent distortions of foreign trade incident to the oncoming of war in Europe and Asia created grave problems for the docks as they did for many other businesses.

In addition to these difficulties, the competition of unremunerative charges at competing terminals and ports had to be met. So long as the Interstate Commerce Commission fails to require railroads at competing ports to operate their terminals on a remunerative basis, competition from this source will have an adverse effect upon the operations of the state docks.

Handicaps arising from the business cycle and the war, from unregulated interport competition, and from the legal impediment to the refinancing of its bonds at lower rates of interest are clearly not remediable by anything that the state-docks administration can do. Even under such unfavorable circumstances, the docks nevertheless have been able to earn enough to pay operating expenses; substantial amounts on the interest account, beginning in fiscal 1929; and interest in full, beginning in fiscal 1936, and to begin paying something toward bond retirement.

Critics of the state docks, looking at the matter from another point of view, say that this enterprise has never really been a paying business venture. Such critics stress the fact that not only have the docks failed to amortize their bonds but they have failed to pay interest thereon during more than half of their life. Moreover, the docks did not charge depreciation against plant and equipment until fiscal 1939. Furthermore, they do not have to pay taxes as does a private business. That the docks are now making a respectable showing is ascribed, on the one hand, to their achievement of a virtual monopoly in Mobile, gained by the competitive elimination of the existing docks, and, on the other, to the advantage of an abnormal situation, created by the war.

Supporters of the docks, in turn, point out that, since 1939 when the docks were made a state department, they have paid interest and depreciation in full and they have been operating on sound business principles. The losses sustained before that time were caused by nothing that the docks authorities could have avoided. In 1939, however, net earnings

from all units, original and leased, after depreciation and interest were taken out amounted to 1.2 per cent on the state's 10-million-dollar investment; in 1940, 0.7 per cent; in 1942, 2.8 per cent; and in 1943, 5.7 per cent. The docks in 1941 sustained a net loss of 1.5 per cent on the investment. That a deficit was incurred in that year and that the net earnings in the other years prior to 1942 were less than 2 per cent is explained by the losses incurred on the new leased units that were described earlier³¹—the cold-storage plant, Pier C North, and the bulk-materials warehouse.

The deficits incurred on these facilities were more apparent than real, advocates of the docks enterprise would say. These deficits arose because the rental paid to the city covered interest and amortization of the city's bonds, and this amortization really represented a growing equity of the state in these properties, which were to become state possessions when all indebtedness was paid off. Moreover, the net earnings of these new facilities after depreciation for 1942 and 1943 amounted to \$253,509, whereas the accumulated deficits of the earlier years amounted to only \$82,973. A net gain of \$170,526 was thus received by the state from these leased facilities.

As for the charge that the state docks' improving position is the result of monopoly, friends of the docks point to the fact that not only has the docks' share of port tonnage increased, but the port total has also increased.³² This increase in the port total could not have occurred, it is claimed, if the general docks situation in Mobile had remained as it had been before the state constructed its facilities.

Critics of the docks, in their turn, contend that this increase in the total port tonnage was the result of the actions of buyers and sellers—Japan and other nations were buying scrap iron, steel, and other materials in preparation for war—and did not occur because of the state-docks project. The war itself has sustained and increased the port total.

These critics are doubtful of the docks' future when the war demand ceases. In 1928, they say, the port of Mobile had a total of 50 ship berths—32 in the original port and 18 just constructed by the state. In 1938, the port had a total of only 28 berths—10 belonging to the original port and 18 belonging to the state—although two more were being built. Should all the original docks be shut down, the port would be left with only the state facilities—22 berths. The state would have destroyed more docks than it had created in the process of getting a monopoly and, in doing so, would have reduced the capacity of the port to handle postwar commerce. Supporters of the state docks, on the other hand, would contend that these docks, with their improved facilities, would be capable of handling more commerce than the docks of the original port over which the critics seem so concerned.

Thus, the argument between these contending points of view continues.

³¹ See discussion, pp. 23, 26.

³² See chart 2, p. 29.

Are the state docks, then, a self-sustaining enterprise? No categorical answer can be given. They were not self-sustaining in their early years, but through no fault of their own. They are so today, although the critics may be right in saying that the docks' position is not the result of what the docks have done. At any rate, their position is not solely the result of what they have done.

From the standpoint of economic analysis, the demand for the services of any facility such as docks and terminals is derived from the demand and supply of the commodities to which the facility is serviceable. Whether the state docks at any particular time happen to be operating at a profit or a loss is thus dependent more on general economic conditions than on their own activity. This statement would be true of such facilities no matter who owned them. Whether the state docks, therefore, considered by themselves, will constitute an asset or a liability to the state in the future will depend upon general economic trends in the years ahead.

Results to Mobile

City officials, chamber-of-commerce representatives, railroad and steamship executives, bankers, businessmen, and stevedoring companies are almost unanimous in their view of the effects of the state docks on Mobile. With one accord, they agree that the state docks have been the making of the city. Before the docks came, it was a sleepy Southern port in a condition of gradual deterioration. With the coming of the docks, Mobile awoke to new and vigorous life. Various types of evidence are adduced to show this beneficial effect.

1) *Shipping Service.* For one thing, after the state docks were constructed, many additional steamship lines came to provide regular service in and out of Mobile. Between 1924 and 1928, 20 lines served Mobile regularly. On April 6, 1939, 37 lines were giving regular service to Mobile and 32 were giving irregular service.

2) *Ship Expenditures.* The number of shipping lines serving the port is important because of the business activity entailed in supplying their vessels. Ships entering the port of Mobile in 1930 had a net registered tonnage of 2,647,353. The figure was 3,119,816 in 1940. Before the war, a steamer calling for a minimum amount of cargo and requiring no fuel or repairing would often spend an average of \$500 a day for pilotage, towing, stevedoring, and supplies. A vessel discharging or taking on a greater amount of cargo would spend more. Vessels making Mobile their home port and trading with Europe or the West Indies were often known to spend \$25,000 in port on a single voyage.

The money thus spent by ships in port for fueling, for ship supplies, for repairs, and for services represents a large contribution to the purchasing power flowing through the city's channels of trade. Nearly all businesses feel the effects of such expenditures to some degree.

3) *Industrial Growth.* The direct or indirect attraction of industries

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such as those described in an earlier section³³ similarly stimulates the commercial life of the city. Though these industries themselves are not large employers of labor, they, together with other industries or businesses serving them, contribute considerably to the city's working and buying population. The state docks alone employ somewhat more than 400 persons.

4) *Miscellaneous Indexes.* Other indications of benefit are also cited to show the effect of the state docks on the city. The population, for example, grew from 93,123 (Mobile metropolitan area) in 1930 to 114,906 in 1940. Bank resources grew from approximately 47 million dollars to almost 73 million dollars in the same period. The outbreak of war, of course, and the concentration of a great deal of shipbuilding activity at Mobile have so swollen and distorted all indexes that it would be idle to try to say just how far the state docks have helped to shape the current situation.

Results to the State

As a state enterprise, the state docks should be judged not solely, or even chiefly, on the basis of monetary profit or loss. One of the main purposes in the establishing of the docks system was to provide benefits to the whole economy of the state. Such benefits have indubitably been experienced, even though they cannot be stated in statistical terms.

Ordinarily, any growth of industry that provides a market for the state's raw materials and gives employment to the state's citizens is rightly looked upon as a state gain. That the state docks have had such an effect is obvious. Moreover, insofar as some of these new industries are not tax exempt, they contribute to the support of state and local governments. Those now tax exempt will also make large contributions of tax money when their exemption privileges expire.

Undoubtedly, the Birmingham industrial area has benefited by having an outlet to the sea, accessible by both rail and water. Up to May 1944, 8.7 million tons of traffic had moved to or from Birmingham alone over the state docks. An estimated \$4,250,000 in freight charges was saved over what would have been paid had this tonnage gone through competing ports. On the tonnage moving to or from the whole state of Alabama, the savings in freight charges are estimated at seven million dollars.

Farmers also benefit from the state docks. The facilities provided for handling fertilizer effect important savings for many groups of farmers. The recently constructed cold-storage plant is of growing value to farmers not only in the immediate vicinity of Mobile but over a very wide area. Before the war, commodities stored in the plant included eggs, poultry, butter, pork, beef, cheese, potatoes, satsuma oranges, and cabbage from Alabama; bananas from Mexico; citrus fruits from California and Florida; fish from Alabama and Massachusetts; quick-frozen vegetables from

³³ See discussion, pp. 42-46.

Maine; eggs from Missouri, Nebraska, Tennessee, and Washington; apples from Georgia, Virginia, Oregon, and Washington; frozen eggs and turkeys from Texas; and butter from Oklahoma. In some cases the cold-storage facilities have made it possible for farmers to withhold their perishable produce from the market at times when prices were low and to ship when prices were more favorable. This is likewise true of seafoods, of which large quantities are quick-frozen and shipped or are held for later distribution, thus greatly benefiting the fishing industry of the state.

Benefits such as those just enumerated are real even though they cannot be measured precisely. Therefore, they must certainly be taken into account in any appraisal of the value of the docks to the state. All together, they may well outweigh any monetary loss appearing in the operation of the docks themselves.

An additional gain to the state from the development of the port is to be found in the increased value of the land that the state has improved by its docks project. The transfer of 28 acres of land, the site of old railroad terminals, to the city of Mobile less than a year ago was at the rate of approximately \$20,000 an acre. This was vacant land. If the state's 550 acres of improved land were to be valued at half the transfer value of the old railroad property, the value of this land would amount to 5.5 million dollars. If to this were added the book value of the docks, the railroad, the warehouses, and the equity in properties being acquired on a rental-purchase plan, then the value of the state docks would exceed 16 million dollars.

Another gain to the state lies in the control over harbor lines that the law gives to the Department of State Docks and Terminals. This control makes possible the long-range planning of the port in the general interest. Without the exercise of such control, private interests, looking to the present rather than the future, might easily have created traffic bottlenecks that would have reduced the value of the port.

What, then, have been the results of the state's enterprise at Mobile? Two answers may be given, in the light of the two purposes for which the docks were constructed. In serving the social and economic objectives for which they were founded, the docks have been successful. The city of Mobile and the whole state of Alabama have been benefited, although a disturbed world situation, particularly with regard to foreign trade, has prevailed ever since the docks began operating. In their aim of becoming economically independent, the docks have been somewhat less successful.

These two goals—economic independence and service to the state—are to some extent mutually exclusive. The docks might have been made more nearly self-sustaining, but only at the price of limiting their general service to the state. They might have been of greater service if they had sacrificed their earnings to that purpose. Determination of the "right" policy for such an enterprise depends upon which of these two purposes is considered the more important. The practical problem of the state-docks administration, of course, is to strike a balance between the two. An unprejudiced view of the matter leads to the conclusion that such a

balance has been diligently sought and has been as nearly achieved as might be expected under rapidly changing conditions.

Concluding Remarks

Alabama's experience with the state docks at Mobile provides at least tentative answers to three questions implicit in the establishment of any public enterprise. These questions are: (1) What constitutes a proper field for state or public enterprise? (2) what are the conditions of success for such an enterprise? (3) by what canons should success be judged?

1) *What constitutes a proper field for state enterprise?*—In an economy in which the provision of goods and services is predominantly the function of private business, the intrusion of a governmental body into this field always raises the question of the proper functions of government. This question, of course, is one of the most debated points in political theory. Is there some restricted sphere of activities to which government should rigorously confine itself, leaving all else to private enterprise? Or should government be free to step into any field that, it believes, is inadequately served by private business?

Even the most ardent defenders of private enterprise have always admitted that certain kinds of business activity may properly be undertaken by the state. Such activities are those in which some weighty social advantage is involved but which, by their nature, hold out no attractive prospects of profit to private capital.

In Mobile, however, the state faced a situation in which the particular field was already occupied by private concerns. But here the nature of the competition between various port interests at Mobile, as well as competition with other ports, had rendered private interests unwilling or incapable of expanding, or even sustaining, existing port facilities at a level commensurate with the economic needs of the state. Private enterprise had converted the port, which should have been a growing state asset, into a wasting asset.

Was it proper for the state to step in and rescue this asset for the sake of the general welfare? Critics of the docks proposal when it was first broached and those who still remain answer in the negative. The state, however, answered the question affirmatively. In doing so, it acted consciously or unconsciously on a general principle of far-reaching importance. That general principle is that a state may properly do anything it can do better than private business, even though it enters into competition with private capital. The principle implies that a state on its own initiative may properly undertake the development, in the interest of the general welfare, of any resource that is undeveloped, underdeveloped, or wastefully developed by private capital, provided the state can reasonably expect an ensuing preponderance of social gain over social cost.

2) *What are the conditions of success of a public enterprise?*—From the Alabama experience can be deduced a number of conditions that

favor the success of a state enterprise. These are not so different from those that favor the success of a private business.

a) *Competence.*—One of the first requisites both for those who originally plan the enterprise and for those who subsequently carry it on is competence for their respective jobs. The state of Alabama was able to secure the capable services of General Sibert at the outset. Under his supervision, the work of construction was accomplished with a high degree of technical excellence, with military dispatch, and with unusual business economy. In later years, the docks' ability to secure and retain a competent and experienced operating staff went far to assure successful conduct of the state's business.

b) *Integrity.*—Success also demands that the administrative heads of a public enterprise be men of integrity of character. In a private business the possibility of personal gain or loss serves as a control over administrators. In a public enterprise, however, where officials are handling other people's money, this economic check is absent. In place of this economic check must be substituted a strong feeling of public responsibility on the part of the administrators. The state of Alabama consistently had on its various docks commissions men who possessed this essential quality of integrity.

c) *Single responsibility.*—The experience of the state docks demonstrated that even good men may be divided in their counsels and may thus interfere with the formation of any consistent policy unless one man has been charged with final responsibility. The varied experience, with the commission form of administration and the unified control secured under the form of a state department, has justified the latter, especially since the whole organization is subject to the merit system, which keeps political interference at a minimum.

d) *Business judgment.*—That the administrators should be men of business ability is as essential in a public enterprise as it is in any other enterprise. Such ability means the capacity not only to carry on the routine operations of the business with economy but also to adjust the business to changing competitive conditions. This quality also implies the capacity for actively building up the enterprise's business by all legitimate means. The state of Alabama has had as docks commissioners men who possessed this ability to an outstanding degree. Whatever success the docks have had is attributable to a considerable extent to this quality in its administrative heads.

e) *Social imagination.*—Since a public enterprise exists primarily for the general welfare, it should be administered by men who possess what may be called social imagination. The general interest is not a very clear-cut goal at which to aim. Thought and imagination are necessary in order to see at what points or in what specific ways a public enterprise can best serve the interests of a whole state. This quality is particularly important in making such a complex business as the state docks serve the whole state. These docks do not provide one simple service; they provide

a system of interrelated services—berthing, loading, and unloading facilities for vessels; open and covered storage for various types of commodities; rail facilities; the leasing of industrial lands; and cold storage. The operation of so complicated a system in such a way that the various functions will mutually support each other and that the whole enterprise will yield the maximum benefit to the state requires a great deal of social imagination.

3) *By what canons should success be judged?*—If a public enterprise such as the Alabama docks exists primarily for the welfare of the economy of the entire state, its success or failure must be judged in the light of how successful it is in achieving that end. Consequently, to judge the enterprise solely in terms of how well it meets its operating and capital costs would be a mistake. That the state may have to absorb certain deficits from time to time is no indication that the state is thereby sustaining an over-all loss. A private business often finds it economically justifiable to operate a given department at a loss if such operation increases the business of other departments by more than enough to offset the loss. Similarly, the state may be justified in operating one of its enterprises at an apparent loss if the gains elsewhere more than offset the loss. That such gains have been experienced by Alabama is beyond doubt.

In setting up its system of state docks, Alabama has therefore affirmed not only the right but the obligation of the state to engage in business when the interests of the state so demand. The state has also exemplified the conditions of success in its experience with the docks. If judged by a canon appropriate to a public enterprise, the state docks have proved themselves a success. What their economic future will be, of course, depends largely on the character of coming events.