



The Foreign Dredge Act: Unmoored from economic principles

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My sister is a talented artist. With a brush and a pallet, she breathes life into a horse, sculpts majestic mountains, and captures emotions. On the other hand, I am possibly the world's worst artist. My artistic abilities extend to the realm of stick figures and smiley faces. If I tried to replicate just one of my sister's masterpieces, it would take me significantly longer to produce a painting of substantially lower quality. Though smaller in scale, this phenomenon demonstrates the principles of opportunity cost and comparative advantage. Allowing firms and individuals to specialize in the production of goods and services for which they have a lower relative opportunity cost promotes economic efficiency. However, this economic ideal is often sacrificed to promote alternative goals. Such is the reality of America's policy regarding dredging.

Dredging, which refers to the removal of excess sediment and debris from the bottom of a body of water, is a routine necessity that ensures that bodies of water maintain a water depth capable of transporting ships. In 1906, Congress passed the Foreign Dredge Act, which bans foreign built, registered, or crewed ships from dredging in U.S. waters. At the time, lawmakers believed that bolstering the U.S. shipbuilding industry would ensure a significant domestic shipbuilding capacity during times of war. However, the Foreign Dredge Act is unmoored from basic economic principles such as comparative advantage and supply and demand. By prohibiting any foreign ships from dredging in U.S. waters, Americans are forced to employ lower-quality and higher-cost dredging vessels to carry out this essential task.

First, by ignoring the principle of comparative advantage, the Foreign Dredge Act costs Americans more money. Research from Tulane University's Institute on Water Resources Law & Policy compares American dredging projects to similar projects in the European Union. Though smaller in scale, American projects cost four to five times as much due to the Foreign Dredge Act (Cain 6). Because European shipbuilders can build and operate dredging hoppers for a fraction of the cost, their opportunity cost for providing the service of dredging is quite low compared to American service providers. In a free market, Europe's comparative advantage in dredging capacity should cause the U.S. to allocate its resources elsewhere and import European services. However, because current American law bans the service of foreign dredging, such specialization cannot take place, increasing prices for Americans.

By artificially decreasing the supply of dredging capacity, the Foreign Dredge Act increases costs for Americans. Because Americans cannot utilize foreign dredging services, the amount of available supply of the service of dredging is significantly lowered. In fact, according to an article from 10 days ago, authored by CATO Institute Research Fellow Colin Grabow, the U.S. fleet of privately owned hopper dredges consists of only 15 vessels. For comparison, Jan De Nul, a European dredging firm, operates 30. The dramatic suppression of the supply of dredging services means that contracts for dredging jobs in the U.S. are astoundingly uncompetitive.

After analyzing data from the United States Army Corps of Engineers between 2014-2018, the Congressional Research Service found that 42% of dredging contracts attracted just one bidder, and 25% attracted only two bidders (Frittelli 5). The predictable effects of such a dramatic choking of supply are shown by a supply and demand graph (see below). If supply decreases, the supply curve will shift from S1 to S2. As a result, the new equilibrium price is significantly higher than it otherwise would have been. By suppressing the supply of dredging services in the U.S., the ban on foreign dredging services costs Americans significant amounts of money.

The Foreign Dredge Act is economically misguided. By ignoring the principles of comparative advantage and opportunity costs, the law thwarts resource-preserving specialization. Furthermore, by artificially shrinking supply, the ban on foreign dredging drives up costs. While the law may have merits due to national security concerns, such arguments are tenuous considering that most of our prospective dredging imports would come from allies like the Netherlands. If my mom forced me to do art, the results would be disastrous. Not only would my artwork be repulsive, but I would be forced to squander the valuable resource of my time. The Foreign Dredge Act commits a comparable blunder. It is time to cut the Foreign Dredge Act loose and watch it sail away into the horizon.