



Why Can't We Get Rid Of This Arcane Boondoggle After 97 Years Of Folly?

Mark Skousen

September 7, 2017

“This maritime lobby is as powerful as anybody or any organization I have run up against in my political career.” — Sen. John McCain

I have a bizarre story to share that occurred earlier this year when I was a speaker on a *Forbes* magazine cruise.

On its way to New Orleans, the boat traveled through several Caribbean islands and then made a stop in Key West on its way to New Orleans, where Steve Forbes, the keynote speaker, was to be picked up. But Mr. Forbes wasn't allowed to board the cruise ship in Key West, so he had to give his talk offshore to his followers.

Another strange story is that my long-time friend and professor extraordinaire Ken Schoolland and his wife Li wanted to ship their car from their home in Honolulu, Hawaii, to Shanghai, China, to have transportation during a series of conferences they were planning in China. But they could not ship their car directly from Hawaii to Shanghai, and had to ship it to Los Angeles first, and then to Shanghai at a cost of \$3,035.

In fact, many American ships return empty on their way back to the United States, and vice versa. In addition, many foreign-owned cargo ships return empty on their way back to China.

There's more: A Japanese pulp mill finds it cheaper for the mill to send its product from Alaska to Seattle via Japan than from Alaska to Seattle directly. Recently, the mill shut down.

Big Island ranches in Hawaii charter a weekly 747 out of Kona International Airport to get their cattle to the mainland rather than transfer them via normal shipping.

The cost of shipping a 20-foot container from the East Coast of the United States to Puerto Rico is approximately \$3,063, whereas the same shipment costs just \$1,504 to nearby Santo Domingo (Dominican Republic) and \$1,687 to Kingston (Jamaica).

Keeping up with the Jones Act

What gives? All of these crazy stories are the result of one disastrous piece of legislation called the Jones Act, named after Senator Wesley Jones (R-Washington), who pushed through the Merchant Marine Act back in 1920 to promote the domestic shipping industry and national defense. It requires that all ships that transport goods and persons between U.S. ports be built and

registered in the United States, and workers and crew members be Americans. What could be more pro-American than that?

The “America First” crowd loved it, but we are paying a high price for this protectionist measure. Not only has it resulted in the crazy stories such as the ones I shared above, but it has had the following unintended consequences:

1. Limited the number of vessels available for shipping, and thereby contributes to the growing cost of maritime transportation for the United States. The operating cost for American flagged vessels is almost 2.7 times more than their foreign flagged competitors.
2. Increased dramatically the price of energy in the United States. The cost of transporting crude oil from the Gulf Coast to the American northeast is almost triple the cost of transporting the same oil to eastern Canada (an additional \$5 to \$6 per barrel). According to the Heritage Foundation, the Jones Act increases the cost of gasoline by as much as 15 cents per gallon. The Act has indirectly caused the Northeast United States to have the highest cost of electricity per kilowatt in the contiguous United States.
3. Helped cause the bankruptcy of Puerto Rico. Because the Jones Act forbids foreign producers from delivering products to these islands and then proceeding to the mainland, the cost of these resources is dramatically increased. This increased cost has contributed to the Puerto Rico Electric Power Authority’s debt reaching over \$9 billion.
4. Causes massive traffic jams on interstate freeways because trucks are the primary means of transporting goods rather than coastal shipping vehicles. According to a Tufts study, many of the coastal routes hit hardest by traffic congestion could be circumvented by ships. Shipping is vastly more efficient, safer and less polluting than transport by trucks.
5. Instead of creating a “vibrant” U.S. maritime industry, the results have been devastating: In 1960, nearly 3,000 ships were registered in the United States, representing 17% of the world fleet; today there are only 169 U.S.-flag ships, representing only 0.4%.

Repealing the Jones Act

If the Jones Act were repealed, gross domestic product (GDP) would increase by \$2.8-\$9.8 billion annually, according to the International Trade Commission. A report by Justin Lewis of Tulane University also found that eliminating these shipping regulations would reduce the cost of coastal transportation by 61%.

So why hasn’t the Jones Act been repealed? Many think tanks, including the Cato Institute and the Heritage Foundation, have called for an end to the extreme protectionist measure. Senator John McCain has introduced legislation to repeal the Jones Act. Lawyers have filed lawsuits against the Act as a restraint of trade. Sadly, all have been unsuccessful in fighting a small but tenacious group of American shipping companies and merchant unions (such as the International Longshore and Warehouse Union) who continue to intimidate Congress.

If Congress simply passed an amendment to the Jones Act, things would improve: Just allow American companies to purchase ships abroad, like they do on other forms of transportation. Trucks and planes that carry cargo are regularly purchased from other countries.

Given President Trump's "America First" stance, I doubt repeal is possible. As we approach the 100th anniversary of the Jones Act, it's time we stood up for rational shipping policies and put this archaic boondoggle out of its misery once and for all.

In case you missed it, I encourage you to read my e-letter from last week [about the resilience of the current bull market](#).

Upcoming Conferences

Dallas MoneyShow, Oct. 5-6: I'm delighted to be back in Dallas to moderate a main stage panel, "Washington Policy: How It Affects Your Portfolio," with Steve Forbes, Steve Moore, Peter Schiff and Edward Yardeni. I'll also be doing an encore of the "great debate" with Mike Turner on "The Economics Professor vs. the Mathematician: Buy-and-Hold vs. Market Timing." Finally, I'm on a panel to pick the next big winners with Bart DiLiddo, John Dobosz, Cody Willard, and Kelley Wright. To sign up for your complimentary tickets, go to Skousen.DallasMoneyShow.com.

New Orleans Investment Conference, New Orleans Hilton, Oct. 25-28: I've spoken at this "granddaddy of hard-money conferences" since 1977! This year's keynote speakers include Fox News host Tucker Carlson, Fox contributor Charles Krauthammer, real estate mogul Robert Kiyosaki and commodity guru Dennis Gartman.

Modern-Day Luddites Want to Tax Robots

"If a human worker does \$50,000 of work in a factory, that income is taxed. If a robot comes in to do the same thing, you'd think we'd tax the robot at a similar level." — Bill Gates

Recently, South Korea, known for using the most advanced technology, decided to indirectly impose a robot tax. I say indirectly, because the country hasn't imposed a direct robot tax. It simply has reduced the deduction South Korean companies can spend on automation equipment such as robots from 7% to 2% of their investment.

Now even Bill Gates, who should know better, has advocated a direct robot tax. As Doug Casey recently wrote, "What would have happened if government had decided to do something about the rise of the cotton gin during the first Industrial Revolution? Or mechanical weaving machines, which unemployed millions of "cottage industry" spinners and weavers working with primitive foot-powered looms in their shacks? The Bessemer furnace, the steam engine, the railroad and a thousand other technologies in the first industrial revolution?"

Back then these technophobes were known as Luddites. In the early 19th century, British workers wanted to destroy the cotton machines to save their jobs. They became known as Luddites.

I remember back in the 1960s how some pundits warned about the threat of "automation." It never materialized. More new jobs were created than old jobs destroyed. It is no different today. Robots are replacing workers when it's more productive to do so. That means workers are free to do other work, resulting in new jobs. It is just a question of faith — how much faith do you have in the creative disruption of capitalism?