



Puerto Rico's economy continues to be strangled by obsolete Jones Act

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October 25, 2016

Revolution is not always new.

In the case of Puerto Rico, its economy will be revolutionized – completely reinvented – when it eliminates something that is 96 years old.

This “something” has been strangling the entire island, killing the private sector, and forcing more than one million Puerto Ricans to depend on food stamps. It is called the Jones Act.

They sank the Lusitania!

On May 7, 1915, a German submarine torpedoed the Lusitania, an ocean liner traveling from New York to Liverpool, killing 128 Americans and 1,198 passengers.

Later in 1917, Germany sank the American liner Housatonic, four U.S. merchant ships, and announced unrestricted submarine warfare in the Atlantic. It then proceeded to attack any and all ships, including civilian passenger carriers.

The Germans’ most formidable naval weapon was the U-boat: the most advanced submarine in the early 20th century. The typical U-boat was 214 feet long, carried 35 men and 12 torpedoes, and had a cruising range of 7,200-9,000 miles. During World War I, they struck terror throughout the Atlantic, sinking nearly 5,000 ships without mercy or warning.

Protection of Atlantic trade routes and U.S. shipping

After the war, as a defensive measure, the U.S. enacted the Merchant Marine Act of 1920 (P.L. 66-261). Its primary aim was to create a Merchant Marine which would patrol the Atlantic Ocean trade routes, protect U.S. ships, and guard the U.S. coastline.

The U.S. was still worried about the U-boats.

To prevent any “sneak attacks” along the U.S. coast, Section 27 of the Act decreed that only U.S. boats could carry goods and passengers from one U.S. port to another. Additionally, all the boats must be U.S.-built, U.S.-owned, and crewed by U.S. citizens. Section 27 is also known as the Jones Act.

The dinosaur that ate Puerto Rico

Fast-forward 96 years.

There are no more German U-boats. Wars may be nuclear, cybernetic, biological or terrorist...but there are no enemy submarines lurking off the coast of Puerto Rico. The Jones Act has outlived its original legislative intent, and is now an outdated dinosaur that is eating the entire insular economy.

Because it is a small island, Puerto Rico relies heavily on imported goods ... and the Jones Act dinosaur sets the terms and the prices on all of them. Here is how:

Under the Jones Act, any foreign registry vessel that enters directly into Puerto Rico must pay punitive tariffs, quota restrictions, fees and taxes, which are then passed onto the Puerto Rican consumer.

The foreign vessel has only one other option: it can re-route to Jacksonville, Florida ... where all the goods will be off-loaded from the foreign vessel, re-loaded onto a U.S. boat, and then – finally – shipped back to Puerto Rico. The cost of all this re-routing, off-loading and re-loading, is also passed onto the Puerto Rican consumer.

As a result, all non-U.S. goods imported into Puerto Rico cost 15-20 percent more than they should, because of this 96-year-old dinosaur called the Jones Act.

Jones Act protection racket

U.S. vendors and manufacturers benefit enormously from this dinosaur. The forced hyper-inflation of all foreign goods prices, allows U.S. companies to price their products just a little cheaper than the foreign goods — yet still overcharge Puerto Rican consumers by 12-18 percent for every single U.S. product.

This is not a “business.” It is a shakedown, a Mafia protection racket.

For this reason, a car costs \$6,000 more in Puerto Rico than on the mainland, and food is twice as expensive as in Florida. Overall, the price of imports from U.S. states is at least double that in neighboring islands like the U.S. Virgin Island, which is not covered by the Jones Act.

For this reason, the cost of living in Puerto Rico is currently 13 percent higher than in 325 urban areas in the U.S. ... even though the per capita income in Puerto Rico is roughly \$15,200, which is half that of Mississippi, the poorest of all 50 states.

For this reason, the island is literally a captive market.

Everyone is forced to buy U.S. products, and over 55 percent of all imported goods are from the U.S. The island is the fifth largest market in the world for U.S. products, and there are more Walmarts and Walgreens per square mile in Puerto Rico, than anywhere else on the planet.

Though profitable for the U.S., this arrangement is strangling the insular economy. A 2012 report by two University of Puerto Rico economists found that the Jones Act caused a \$537 million loss to Puerto Rico’s economy in 2010, \$1.1 billion in 2000, and a \$17 billion loss from 1990 through 2010. Pro-rated over 96 years, this amounts to \$77.7 billion.

Other studies have estimated the Jones Act damage to be from \$2.8 to \$9.8 billion per year.

In other words...if the Jones Act did not exist, then neither would the “public debt” of Puerto Rico.

A sordid history of price fixing

As if this “protection racket” weren’t enough, the shipping industry in Puerto Rico – controlled by U.S. carrier companies – is infected with corruption.

Between 2008 and 2013, six shipping executives were sentenced to federal prison for Sherman Antitrust Act violations, conspiring to fix shipping rates, and allocating cargoes amongst the three companies which employed them.

The Jones Act companies in Puerto Rico – Crowley, Sea Star, Horizon Lines – were all indicted as co-conspirators who “conspired to fix, stabilize and maintain rates...and to rig bids submitted to customers of Puerto Rico freight services.”

The revolutionary economy

Puerto Rico deserves better than this. If the Jones Act were repealed, consumer prices would drop all over the island by 15-20 percent. Energy costs would drop as much as 30 percent, for both oil and natural gas.

Instead of receiving shipments from Jacksonville, the island would receive its goods directly and cheaply. The entire island would become a regional trans-shipment port between South America, the Caribbean, and the rest of the world.

It would also develop its own island-based shipping industry: based on ship building, operation, maintenance, and ownership.

This shipping industry would generate thousands of jobs and opportunities for many skilled laborers: carpenters, electricians, engineers, welders, plumbers, painters and seamen.

It would also create hundreds of small businesses: metal, wood and hardware suppliers; storage facilities; shipyard building and maintenance...even restaurants and food stands, to feed the multitude of new workers.

On an island with 12 percent “official” unemployment (closer to 25 percent), this would energize the island’s workforce. It would also be the enormous first step – the foundation – for creating a private sector, an industrial base, an investment climate, and an entrepreneurial class in Puerto Rico.

It would revolutionize the entire insular economy.

Widespread and growing support

Exempting a territory from the Jones Act is nothing new. Three U.S. territories are currently exempt from the Jones Act, including the U.S. Virgin Islands, which were exempted in 1992.

Jones Act reform – and outright repeal – has already been advocated by the Heritage Foundation, Cato Institute, Manhattan Institute, Capital Research Center and The Hill. The Washington Post and New York Times agreed. Even the Federal Reserve Bank of New York, in a 40-page report, found that the Jones Act hurts the Puerto Rican economy.

Legislators from Hawaii, Alaska and Puerto Rico have held joint conferences, and advocated together, for Jones Act repeal.

This broad spectrum of support – transcending geography, ideology and political party – has reached the U.S. Congress. Two Republicans, Sen. John McCain and Rep. Gary Palmer, have repeatedly submitted bills for Jones Act repeal. Rep. Palmer even tried to amend the recent PROMESA bill, to include a Jones Act exemption for Puerto Rico.

The whole world is watching

The U.S. has run out of wiggle room. The U-boats are gone, and a protectionist law has been exposed. The crony capitalism of the Jones Act does not “protect” the U.S. people, and is strangling the economy of Puerto Rico.

A few privileged shipping companies (Crowley, Trailer Bridge, Sea Star), maritime lobbyists, and Jacksonville labor interests will continue their Orwellian insistence that the Jones Act...is somehow protecting a “national security” interest which no longer exists.

But let's get real.

If the U.S. has any interest in the Puerto Rican people, other than to squeeze them dry with a Financial Control Board, it needs to take the Jones Act off their neck. If the U.S. refuses to do this, they should know one thing: the whole world is watching.