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Mayday for American Protectionism

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Washington, D.C – When you try something for 99 years and the situation keeps getting worse, it is time to try something else. The United States Congress passed the Merchant Marine Act of 1920 (also known as the Jones Act) in order to protect America’s shipping industry and strengthen national security. But the law has almost destroyed the industry, and imposed huge costs on America’s businesses, consumers, and the environment. It needs to be sunk.

The Jones Act requires all cargo shipped between American ports to be carried on US-flagged vessels that are assembled entirely in America, and that have some of their major components manufactured in the US. These ships must be at least 75% owned and crewed by Americans. And if an US-flagged ship needs to be repaired overseas, the US charges a 50% tax on the price.

Shipping goods between two ports in the same country is called “cabotage.” The World Economic Forum has called the Jones Act the world’s most restrictive cabotage law, and the OECD ranks the US behind only China and Indonesia in the restrictiveness of its maritime-services regulations.

Jones Act requirements have long been a protectionist drag on the US economy and are increasingly detrimental to national security – as Colin Grabow, Inu Manak, and Daniel Ikenson of the Cato Institute pointed out in an important paper last year. (This commentary draws heavily on their work.)

Consider national security. Since 2000, the number of American ships of at least 1,000 tons that comply with the Jones Act has fallen from 193 to 99. When the US military sent materiel to the Persian Gulf in 2002-03, American commercial ships took only 6.3% of the total, and foreign-flagged vessels a further 16%. (The US military transported the rest.)

Shipbuilding and shipping operations in the US have also become inordinately expensive. American-built coastal-size container ships are estimated to cost between \$190 million and \$250 million each, compared to about \$30 million for foreign-made equivalents. And because Jones-compliant ships are so expensive, their owners do not replace them. A ship’s economically useful life is generally considered to be about 20 years, but more than 65% of the Jones fleet is over 30 years old, making it inefficient and even dangerous. And whereas America built less than one million gross tons of ships between 2014 and 2016, South Korea and China produced a combined 140 million tons.

According to some estimates, the daily operating costs of US-flagged ships are almost three times higher than those of foreign vessels. Crewing costs on American ships are reported to be about five times greater. And whereas transporting crude oil from the Gulf Coast to the US Northeast on a Jones-compliant ship costs \$5 to \$6 per barrel, it costs only \$2 per barrel to carry crude from the Gulf Coast to Eastern Canada on a foreign-flagged vessel.

Because of the high cost of US coastal and Great Lakes shipping, the volume of American goods carried on these routes has fallen by about half since 1960. Over the same period, US railroad cargo has increased by 50%, and intercity truck freight by over 200%. Today, only 2% of US domestic freight is carried by water, compared to 40% in Europe.

If the Jones Act were repealed, many goods could be transported within the US more cheaply by water than on land. Tellingly, US waterborne freight to and from Canada and Mexico, which is not subject to the Act, has increased by 300% since 1960.

By pushing companies to use land-based transport, the Jones Act increases costs for US firms, raises prices for consumers, and causes more congestion on the country's highways. Moreover, truck, rail, and air transport produce up to 145 times more carbon dioxide emissions than cargo ships do.

The law's negative effects do not end there. Puerto Rico, which has no overland route to the rest of the US, pays a particularly heavy price, because only a handful of Jones-compliant ships regularly serve the island. Whereas the neighboring Dominican Republic buys oil from the US, shipments of imported supplies from Venezuela and other countries cost Puerto Rico less (even though US-sourced oil itself is cheaper). And when Hurricane Maria devastated the island in 2017, US President Donald Trump authorized only a ten-day waiver of the Jones Act – not long enough for some foreign-owned ships to bring much-needed aid.

Subjecting Puerto Rico and other US territories and states to higher shipping charges serves no useful purpose and discriminates against fellow Americans. And with foreign ships and crews entering US ports every day, it makes no sense to argue that commercial sailors should be American for national-security reasons. Environmentalists, too, ought to be outraged, given the costly and unnecessary damage resulting from increased CO₂ emissions.

Having destroyed US merchant shipping over the past 99 years, the Jones Act needs to be repealed. Ships plying US waters should be obtained wherever they are cheapest. And without protectionist laws, America's shipbuilding industry might well start rationalizing and become more competitive.

The longer the Jones Act remains on the books, the more expensive US commercial shipping will become and the further it will decline. Rather than celebrating the centenary of a damaging protectionist law, policymakers should throw it overboard.