

# NATIONAL REVIEW

## America Doesn't Need More Shipping Protectionism

Colin Grabow

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Subsidies will get us more ships, but they're hardly guaranteed to improve our national security or American shipbuilding's international competitiveness.

American commercial shipbuilding is in a wretched state. Plagued by high costs and inefficiencies, there is little appetite for the industry's offerings beyond a diminutive, captive domestic market. Taking note of the industry's decline, Jerry Hendrix recommends an ambitious agenda of government-funded shipyard construction and subsidies to restore U.S. shipbuilding to its former glory. But we should be skeptical of the rationale for such industrial policy and of its potential to elevate the United States above shipbuilding mediocrity. Doubling down on policies that have not succeeded in the past would be unwise.

Government-led efforts to promote the U.S. shipbuilding industry are as old as the country itself. In 1789, Congress passed a ship-registration law requiring U.S. flagged vessels to be domestically constructed, as well as a separate law imposing discriminatory duties in favor of vessels built in the United States. Foreign-built vessels were not permitted to register under the U.S. flag until 1912, and even this permission was limited to those vessels engaged in international trade. To this day, only vessels constructed in U.S. shipyards — a de facto subsidy to the industry — are permitted to transport goods within the country.

In the country's early years, such protectionism coincided with U.S. shipbuilding prowess, as evidenced by the construction of cutting-edge vessels such as the clipper ship. But a causal relationship is unlikely. Even prior to independence, colonial shipbuilders — blessed with abundant natural resources — were renowned for their efficiency and skill, so much so that, by 1776, the vessels they delivered accounted for one-third of those in the British registry.

Unfortunately, it has been mostly downhill from there.

Once the era of wood and sail gave way to iron and steam, protected U.S. shipbuilders failed to maintain their competitive edge. An 1894 government report, for example, noted that vessels delivered by U.S. shipyards were 25–35 percent more costly than those from British shipyards. Contemporaneous observers viewed protectionism as complicit in this lack of competitiveness. That year, President Grover Cleveland declared that U.S. shipbuilding had been “protected to strangulation,” while an 1899 *New York Times* editorial deemed U.S. shipbuilders “drugged and hypnotized by decades of prohibitory protection.”

The 20th century saw U.S. shipbuilding's competitiveness erode further, with U.S. built ships costing twice as much as those constructed overseas by the 1950s and three times as much by the 1990s. Today, a U.S.-built containership is estimated to cost five times as much as one built abroad. Such high prices mean that demand for U.S.-built merchant ships is limited to those used in domestic trade as required by the Jones Act, with the domestic shipbuilding industry collectively delivering merely three large merchant ships per year, on average, since 2000. In contrast, South Korea's Hyundai Heavy Industries alone can deliver 80 per year. To the extent the U.S. retains a shipbuilding base, it is largely due to government contracts for military vessels, which in 2019 accounted for nearly 80 percent of all U.S. shipbuilding revenue.

Some contend that the commercial shipbuilding industry's downfall can be largely traced to cuts in federal shipbuilding subsidies in the early 1980s. Such arguments, however, must reckon with the fact that even generous subsidies until then — up to half the cost of the ship — had still resulted in the United States' being a shipbuilding also-ran. From 1951 through 1990, U.S. shipyards accounted for over 5 percent of global shipbuilding output only twice, and in most years did not exceed 3 percent. Writing in 1968, one observer described the United States as playing only a “negligible role” in global shipbuilding, having fallen from its wartime-shipbuilding heights of the 1940s to a “position of insignificance.” A 1992 government report, meanwhile, noted that not a single commercial ship had been built for export since 1960.

U.S. shipbuilding's gross lack of competitiveness led a 1979 *Baltimore Sun* article to presciently warn of the coming closure of major U.S. shipyards in the months and years ahead. Even federal subsidies could not make up for the yawning technological and productivity gap between American and foreign shipbuilders, the latter having been developed under the competitive pressures of the international marketplace. U.S. shipbuilding inferiority also helps explain why, after a deal was reached in the mid 1990s to rein in global shipbuilding subsidies, American shipyards were the only ones to reject it.

In fairness, calls for shipbuilding subsidies are typically justified on national-security grounds, and inefficiency in itself is not disqualifying in matters of the country's defense. Indeed, no less a free-market enthusiast than Adam Smith conceded that defense was of greater importance than opulence, allowing for measures that may be inefficient but vital for safeguarding the nation. But should government largesse to the shipbuilding sector be considered such an example? The answer is less clear than one might suppose, and the burden of proof lies with the proponents of domestic shipbuilding.

One argument put forth in favor of shipbuilding subsidies is that the country cannot depend on foreign-built ships to carry commercial cargos to and from U.S. ports. But experience shows this isn't true. Indeed, the entire American flagged, “internationally trading” fleet is composed of 85 foreign-built ships. Their dependability is such that 60 of these participate in the Maritime Security Program, standing at the ready to deliver equipment and supplies for the U.S. military in time of conflict or national emergency.

Another argument emphasizes the advantages of being able to replace wartime losses, or to augment the fleet during conflicts, that domestic shipbuilding would offer. These would only apply, however, if the conflict in question is of sufficient duration. Recent tankers delivered by U.S. shipyards have required an average of 17 months to construct while containerships have averaged 30. Even if built at an accelerated wartime pace, such ships could very well end up being delivered after the fighting had already ceased. This is far from hypothetical: Of the

hundreds of merchant ships ordered by the U.S. government during World War I, most were delivered after the 1918 armistice.

Further complicating matters is that the few merchant ships built in the United States are heavily reliant on foreign sources for key components. While this reliance helps prevent U.S. shipbuilding costs from reaching even more absurd heights, it belies the notion that domestic vessel construction would eliminate foreign dependence. It also raises another question: Why — if it is not an affront to national security for American shipbuilders to import, for example, ship engines from South Korea — should Americans not be able to import hulls from this and other allies?

Any notions, meanwhile, that expanded commercial shipbuilding would entail gains for naval shipbuilding, too, must contend with the increasingly distinct natures of military and commercial shipbuilding: Most shipyards building larger U.S. Navy and Coast Guard ships do not generally construct commercial vessels. Indeed, when the Newport News shipyard — where U.S. aircraft carriers are built — tried its hand at building tankers in the 1990s, it suffered over \$300 million in losses.

None of this is to doubt that, should we lavish enough taxpayer dollars on the industry, more ships would be built. Whether this would materially improve the country's national security, or place the domestic shipbuilding industry on a path toward international competitiveness, however, *is* doubtful. Heavy shipbuilding subsidization is a path the United States has already gone down once. The country should think twice before doing so again and, if it does, then only by considering new and creative approaches that avoid the pitfalls of the past.

**COLIN GRABOW** *is a research fellow at the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.*