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Alaska Tourism Is Ailing but Not From Covid

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Canada closes its ports, and U.S. law keeps American cruises at the pier.

There's good money to be made ferrying sightseers from the Lower 48 to Alaska on cruise ships. But unless the tour stops over in Canada—or some other foreign port—the Passenger Vessel Services Act of 1886 says the carrier must be flagged in the U.S. and owned, built and crewed by Americans. This requirement makes the excursion more expensive to operate and profits harder to come by.

The act, known as the PVSA for short, is a first cousin of the 1920 Jones Act, which mandates the same for the transportation of cargo between American ports. Both laws work well to keep out foreign competition and enrich the U.S. maritime lobby—shipbuilders, unionized crews and shipping firms. For this reason the maritime lobby generously donates to politicians on both sides of the aisle.

The high costs of the PVSA and the Jones Act to Americans are dispersed, so it's politically difficult to mobilize the victims effectively. But the closing of Canada's ports-of-call for a second straight summer because of Covid-19 is illuminating the downside of this crony capitalism.

Carriers that don't meet the PVSA's requirements can't allow passengers to leave or join a cruise between U.S. ports, and the ship must make at least one stop in a foreign country. Canada, located as it is on the way to Alaska from Seattle, had given the cruise industry a way to serve mainland customers who wish to travel to the 49th state at competitive prices.

Without permission to stop in Canada, ships built or flagged outside the U.S. again this year can't offer the voyage, which is a gut-punch to Alaskan tourism. Tourism around the Great Lakes will take a hit this summer for the same reason. There as well, ships that normally skirt the PVSA's requirements by sailing into Canadian ports are also tied up at the pier.

The easiest solution would be to repeal the PVSA. But Alaska's Republican Sens. Lisa Murkowski and Dan Sullivan are reliable allies of the maritime lobby. So to protect a narrow special interest, they are instead offering legislation to declare temporarily that cruise ships traveling between Washington state and Alaska are making foreign voyages.

Aside from politicians and lobbyists, it's hard to see how the PVSA's requirements for cruise ships help Americans. The U.S. hasn't built a big cruise ship since 1958. The only PVSA-compliant cruise ship now sailing operates around Hawaii under a special exemption from Congress because it was built in Germany. Imagine the tourism opportunity for consumers and producers that would arise from the sunset of the PVSA.

The costs of the Jones Act to economic growth and development in the Americas may be even higher. As discussed in this column March 21, Jones prohibits the possibility of an infrastructure "highway" that could link new investment in Central America's troubled Northern Triangle—Guatemala, Honduras and El Salvador—to the U.S. Gulf Coast via Mexico.

If a ship built or flagged outside the U.S. carries cargo from abroad to a U.S. port, it may not pick up new cargo at that same port and bring it to another U.S. port. This restriction is a burden to investors who require competitively priced logistics and transportation and to carriers that could otherwise capture efficiencies in serving the region. It's hard to quantify the costs because there is no way to measure the dynamism that would naturally occur if shipping were freed from the bonds of maritime protectionism.

The Jones Act also provokes reciprocal protectionism among U.S. trading partners, which means that American carriers are similarly barred from competing abroad. Eliminating this series of shipping silos is crucial to boosting development in the Northern Triangle, as a 2017 report by the Mexican Council on International Affairs noted: "An integrated and competitive transport system allows for the integration of regions that are today isolated from foreign trade, not only in West and Southern Mexico, but also in the north of Central America."

The Jones Act is particularly costly to Puerto Rico because it keeps the island from capitalizing on its comparative advantage as a transit point for cargo. Colin Grabow, who heads the Cato Institute's Project on Jones Act Reform, puts it this way: "Absent the Jones Act we would see large ships drop their cargo in San Juan or Ponce for placement on smaller ships to various ports in the region, including the U.S.—basically a hub-and-spoke model. But no one will ever use Puerto Rico as such a transshipment hub so long as shipping between PR and the world's largest economy is subject to the Jones Act."

President Biden claims to be a champion for strengthening U.S. infrastructure. He also says he wants to help Mexico and Central America generate jobs so migrants can stay home. Repealing the PVSA and Jones Act would do both, without costing taxpayers a dime.