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Protectionist Shipping Restrictions Are Choking The U.S. Economy

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Economists rightly criticize President Trump's tariffs for their pernicious effects on U.S. producers and consumers. Import taxes on intermediate goods—inputs like steel, aluminum, and electronic components—drive up production costs and operating expenses for businesses along supply chains on down to the end users. But we must broaden the inquiry to include trade restrictions on the most common intermediate input: freight transportation.

In the United States, businesses and governments spend north of $600 billion per year on transportation (and warehousing). That spending is much higher on account of a 100-year old law called the Jones Act. Formally known as Section 27 of the Merchant Marine Act of 1920, the Jones Act restricts waterborne transport of cargo between any two points in the United States to vessels that are U.S.-built, -owned, -crewed, and -flagged. That restriction triggers a cascade of costs that rains down on the U.S. economy, amounting to tens of billions of wasted dollars per year.

In a new study published today by the Cato Institute, former chief international economist at the Council of Economic Advisers and current Texas Tech professor Timothy Fitzgerald estimates the environmental costs of the Jones Act, alone, to be as high as $8.2 billion per year. Fitzgerald notes:

Think about it like this. Protecting domestic shipbuilders from foreign competition raises the cost of producing ships, as well as the prices that shipbuilders can charge their captive customers. Those customers—the domestic shipping companies or "carriers," who are themselves excused under the law from having to compete with foreign carriers—cover their costs by charging higher shipping rates to their customers, who are mainly U.S. producers, wholesalers, and retailers. And those higher transportation costs are reflected in higher prices

As a result of the Jones Act, cargo that is now too costly to move on water is instead diverted, primarily, to roads and rails. This is where Fitzgerald sharpens his pencil. He notes that greenhouse gas emissions are far greater for trucks and trains than they are for ships and that 40 percent of Americans live along the nation's coastlines, which suggests there could be much greater supply and demand for water transportation.

Whereas trucks account for 66.1 percent of the transportation sector's domestic freight miles and 80.5 percent of its greenhouse gas (GHG) emissions, water transport accounts for only 3.4 percent of the freight miles and 0.9 percent of GHG emissions. Accordingly, trucks are five times more costly than ships by this metric. Fitzgerald notes: "The good news is that relative to the overall transportation sector, maritime transport is relatively clean. Reallocating freight across modes has the potential to reduce GHG emissions."

Fitzgerald's estimates are predicated on the benefits that would accrue if 10 percent of freight moved by surface transportation were to move to waterborne shipping (a conservative assumption) and that the current fleet of Jones Act eligible ships was upgraded to include modern, more environmentally friendly ships—both reasonably conservative assumptions. After all, more than half of the Jones Act fleet, according to Fitzgerald's analysis, is more than 25 years old, which means the average fuel efficiency and the type of fuel burned are both inferior, environmentally, to modern alternatives.

Under that set of assumptions, Fitzgerald concludes that the "Environmental costs from freight transport are substantial. Plausible changes to the current set of rules governing freight transport could reduce costs from emission in excess of $8 billion per year." That's compelling. But there's more.

Beyond the immediate transportation costs and environmental costs of the Jones Act, there is also the matter of the disproportionate wear and tear on U.S. transportation infrastructure caused by trucks and trains. Federal, state, and local governments spent more than $400 billion on transportation infrastructure in 2017, a significant share of which covered the cost of maintenance and repairs. There is also the deepening problem of traffic congestion caused by the growing volume of trucks on our highways. Some portion of the approximately $100 billion in annual lost wages and output due to traffic congestion is a cost rightly attributable to the Jones Act.

The Cato Institute is working on estimates for these other costs, but it is safe to say that the accumulated economic cost of the Jones Act after 100 years amounts to squandered resources in the trillions of dollars. Despite presiding over the decimation of U.S. shipbuilding, the precipitous decline in the number of ships in the fleet, and a dramatic atrophying in the number of merchant marines, the Jones Act is still rationalized by its proponents as a national security imperative. But it is a costly failure that continues to burden the U.S. economy and weaken national security.

I'm the director of Cato's Herbert A. Stiefel Center for Trade Policy Studies, focusing on WTO disputes, regional trade agreements, U.S.-China trade issues, steel and textile trade policies, and antidumping reform. Ikenson has been involved in international trade since 1990.