

Want to Help Puerto Rico? Repeal a Protectionist Law

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Puerto Rico faces enormous problems in the wake of Hurricane Maria. But perhaps the biggest hurdle it must surmount is not one caused by nature, but by protectionists. The Jones Act was passed to protect the domestic shipping and shipbuilding industries. But it is just getting in the way of shipping needed goods to Puerto Rico, and raising the costs of essential supplies. When you see a television report about the urgent need for water, food and other necessities, you are actually viewing the impact of protectionism.

The Jones Act – officially known as the Merchant Marine Act of 1920 – was passed in response to the sinking of nearly 5,000 ships by German U-boats during World War I. Among other things, it decrees that only American ships – built, crewed and owned by Americans – can carry goods and passengers from one U.S. port to another. It creates a guaranteed market for shippers, and strips leverage away from all businesses and consumers that depend on shipping.

As an island dependent entirely on shipping, Puerto Rico has been especially hard hit by the law, which exacts punitive tariffs on any foreign vessel that enters its harbors. The price of goods shipped from the U.S. mainland is almost twice as much as their price in nearby islands. The cost of living in Puerto Rico is 13 percent higher than it is in 325 urban areas in the United States – despite a per capita income that is about half that of the poorest of the 50 states.

How much has the Jones Act cost the island's economy? About \$17 billion from 1990 through 2010, according to a study by two University of Puerto Rico economists. A car costs about \$6,000 more than on the mainland, and food is twice as expensive as it is in nearby Florida. Just three years ago the New York Fed characterized the high cost of shipping as a “substantial burden on the island's productivity”, undermining its ability to compete for container volume with Kingston, Jamaica. It costs only about \$1,600 to ship a 20-foot container of goods from the east coast of the United States to Kingston. It costs almost twice that much – more than \$3,000 – for the same shipment to Puerto Rico. Several reports have found that if not for the Jones Act, Puerto Rico would never have had to declare virtual bankruptcy.

The protectionist law is especially burdensome now. While the Department of Homeland Security has waived the Jones Act for fuel shipping for the time being, Puerto Rico is in desperate need of supplies, including food, medicine and construction materials – and it is being cut off from potential suppliers. Many have argued that even in the absence of a full repeal of the Jones Act, it should at least be suspended temporarily to allow direct shipments to the island for the foreseeable future. "You're looking at a clear and avoidable economic burden being placed on the people of Puerto Rico," says Cato Institute Adjunct Scholar Scott Lincicome.

But it shouldn't take a crisis to recognize that protectionism may help a few crony capitalists, but only at the expense of the vast majority of people. Prices on Puerto Rico are higher than they would be, and potential for investment and economic growth is lower, because of a law passed almost a century ago to avoid a fear that no longer exists.

For Puerto Rico, the problem today isn't the fear of surprise attack by German U-boats. It is the need to recover from Hurricane Maria. The island has been hit hard enough by a natural disaster. It should be relieved of the devastation caused by an unnatural one.