

Global Trade

One Hundred Years Too Many—Repealing the Jones Act

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In a new policy analysis, Colin Grabow, Inu Manak, and Daniel Ikenson of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies present a comprehensive analysis of the history, economics, and politics behind the Merchant Marine Act of 1920, better known as the Jones Act.

The authors contend that not only has the law failed to meet its stated objectives—ensuring adequate domestic shipbuilding capacity and a ready supply of merchant mariners in times of national emergencies—it has actually inflicted considerable economic harm through a variety of direct and indirect channels. While total repeal is preferable, the paper also presents a series of options for reforming this archaic law and reducing its costly burdens.

Restricting domestic shipping services to vessels that are US-built, US-owned, US-flagged, and US-staffed has created myriad unintended consequences. While the law is billed as promoting a strong domestic maritime industry, the authors argue it has actually presided over its decimation.

Shielded from competition in the construction of vessels for the Jones Act trade, the US shipbuilding industry has become staggeringly uncompetitive. American-built coastal and feeder ships, for example, cost between \$190 million and \$250 million, whereas the cost to build a similar ship in a foreign shipyard is about \$30 million. Accordingly, US shippers buy fewer ships, US shipyards build fewer ships, and merchant mariners have fewer employment opportunities.

High replacement costs, meanwhile, cause ship owners to squeeze as much life as possible out of their existing vessels. Three out of every four US container ships surpass the typical 20 year economically useful life of a ship, with 65 percent of the fleet more than 30 years old. These ships are not only inefficient, but also lack key safety features available on newer vessels.

Jones Act supporters still justify the law under the guise that it is vital to US national security. To the contrary, however, the law has led to a maritime sector that is uncompetitive, diminished in size, and increasingly unprepared to play a helpful role in times of war or national emergency. Since the 2003 Iraq War, the Jones Act fleet has declined from 151 ships to 99, and a senior Pentagon official was forced to admit this year that the United States may “need to rethink policies of the past in order to face an increasingly competitive future.” Moreover, in recent

natural disasters, such as Hurricane Maria, rather than serving as an asset, the Jones Act functioned as an impediment by disqualifying ships for providing relief.

High economic costs resulting from Jones Act restrictions are robust, and trickle down through numerous industries. While the law's most direct consequence is to raise transportation costs, which are ultimately reflected in higher retail prices, it also generates enormous collateral damage through excessive wear on the country's infrastructure, time wasted in traffic congestion, and the accumulated health and environmental toll caused by unnecessary carbon emissions and hazardous material spills from trucks and trains.

Despite these considerable costs, repealing the Jones Act will not be easy. After nearly 100 years, incumbent interests, regulators, and politicians have become used to the privileges of a system that benefits a concentrated few. If Congress is unable to fully repeal the law, the authors offer three important reforms that would help lift the burden of the Jones Act on the US economy. First, the federal government should grant limited cabotage rights to non-Jones Act compliant vessels. Second, permanent exemptions should be granted for Alaska, Hawaii, Puerto Rico, and Guam, which are located many miles from the US mainland. And lastly, Congress should eliminate the burdensome US build requirement.

The authors intend to release three subsequent studies. The next two delve deeper into the economic costs of the law and the fallacy behind the national security argument, while the third culminates in a comprehensive plan for repeal.