

The Jones Act and Its Effect on International Trade

William Truscott

EC-300-02 – International Economics

Term Paper

Word Count:

Due: 9 December 2010

Help Received: See Work Cited

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The most affordable form of transportation for trading goods is via shipping. One container ship can carry the same cargo as that of an entire fleet of transport aircraft, and at a fraction of the price in fuel. However, in the United States, there exists a protectionist statute which severely impedes our interstate commerce and the ability of US shipping firms to engage in international trade. Known more commonly as the Jones Act, the Merchant Marine Act of 1920 regulates cabotage, or coastal shipping, and was originally designed to support the maritime industry in America. The act requires that all ships transporting goods from one US port to another must be documented as US-flagged vessels, have been built in the United States, and owned and crewed by US citizens or permanent residents. Ninety years later, this law still exists and is a detriment to the United States' ability to trade because America no longer is best at producing transport ships. It would make better economic sense to allow US shipping companies to buy and use ships built in other countries that are more efficient at making the boats. At present, the US shipyards build only 1% of the world's large commercial ships¹. These shipbuilders can charge high sums for each vessel, since American shipping companies must buy from them. If legislation were enacted that would amend these regulations, American firms could afford to buy more ships, increase shipping, both domestically and internationally, and lower transportation costs.

Before delving into discussion, it is necessary to define certain subject-matter vocabulary to be covered. Cabotage is the "trade or transport in coastal waters or airspace or between two points within a country."² Cabotage may also be referred to as "coastwise shipping."

Documentation, in terms of maritime regulations in the United States, is a form of registration

¹ "Merchant Marine Act of 1920," Wikipedia, 2010, accessed November 14, 2010, http://en.wikipedia.org/wiki/Merchant_Marine_Act_of_1920.

² Cabotage. (1983). In F. Mish (Ed.), *Webster's Ninth New Collegiate Dictionary* (194). Springfield, Mass.: Merriam-Webster Inc.

for vessels in excess of five net tons and owned solely by an American citizen. Documentation is used to provide conclusive evidence of nationality for international purposes and allow for unhindered interstate commerce³. United States documented ships, known commonly as US-flagged vessels, are entitled to certain privileges afforded to Americans, such as the protection of US Armed Forces while on the high seas, especially by Coast Guard and Naval vessels, and protection from illicit searches done by foreign governments. The United States Merchant Marine consists of all American civilian-owned and documented merchant vessels that are engaged in commerce or transportation of goods both internationally and domestically⁴.

The Merchant Marine Act of 1920, or Jones Act, which is the principle legislation dealing with cabotage, outlines that no goods are allowed to be shipped within the coastwise areas of the United States “in any other vessel than a vessel built in and documented under the laws of the United States and owned by persons who are citizens of the United States⁵.” The statute additionally provided for the rights of seaman aboard US-flagged vessels and made provisions for the US Merchant Marine to serve as an auxiliary arm of the Navy in time of war or national emergency. These parts of the act have been seen as beneficial to our national security, and been the argument to keep the law unaltered. However, the negative aspects that come from the Jones Act include job protection of an inefficient industry, higher costs for ships, and fewer American shipping firms taking part in international trade.

The requirement imposed by the Jones Act that the crews consist of American citizens serves as a job protection measure for American seamen. Sailors in the United States represent a

³ “Frequently Asked Questions,” National Vessel Documentation Center, 2008, accessed December 2, 2010, <http://www.uscg.mil/hq/cg5/nvdc/nvdcfaq.asp#01>.

⁴ “United States Merchant Marine,” Wikipedia, 2010, accessed December 2, 2010, http://en.wikipedia.org/wiki/United_States_Merchant_Marine.

⁵ “Jones Act,” Maritime Cabotage Task Force, 2006, accessed December 2, 2010, http://www.mctf.com/jones_act.shtml.

much smaller portion of the workforce than they did when the Jones Act was first put into law. According to the Bureau of Economic Analysis estimates released in 2006, the number of full- and part-time workers involved in water-borne transportation between 1977 and 1997 ranged from 53,000 to 68,000 seamen, making the average population for the two decades 58,476 sailors⁶. Of these sailors, only about 4,000 are civilian members of the Department of Defense's Military Sealift Command (MSC)⁷. Compare this number to the average total number of workers in the workforce for the same time period, 110,011,300 people, and it becomes obvious that this industry is very small. Yet, the sailors have sole access to jobs on US-flagged ships, and take advantage of this fact to bargain for higher salaries. This forces the costs imposed on the American shipping firms to rise, and that raises the prices consumers pay on American goods transported domestically by water. Since the American goods' price is now higher, foreign goods transported to the United States are now relatively cheaper for the consumer, and American imports are driven upwards.

Additionally driving up costs for American firms are the ships themselves. US ship builders have an instituted monopoly for the production of vessels to be bought by US shipping firms. This would be less of a problem if not for the fact that American shipbuilders are very inefficient compared to the rest of the world's ship building firms. Since 2004, South Korea has held the title of being the world's largest shipbuilding nation⁸. The shipyards are so efficient that

⁶“Employment Estimates for 1948-1997 Based on the North American Industry Classification System,” U.S. Department of Commerce, Bureau of Economic Analysis, 2006, accessed December 7, 2010, http://www.bea.gov/industry/NAICSEmployment_datarelease.htm.

⁷“Employment Opportunities and HR Information,” Military Sealift Command, accessed December 7, 2010, <http://www.msc.navy.mil/n1/>.

⁸ James Brooke, “Korea reigns in shipbuilding, for now,” *New York Times*, January 6, 2005, accessed December 7, 2010, http://www.nytimes.com/2005/01/05/business/worldbusiness/05iht-ships.html?_r=1.

“a new \$80 million super-vessel slips into the water every four working days”⁹. In 2008, South Korea produced 12,400,000 gross tons of ships, comprising just over 50% of the world’s production of ships for that year¹⁰. The next closest country was China, which 34.4% of the world’s ships (8,400,000 gross tons). Both of these countries totally dwarf the United States in production, which is around 1% of the world’s ships. The United States is incomparable with South Korea, especially since no type of super-vessel is even produced in this country. Yet, US-built ships remain expensive because shipyards know American shipping firms must buy from them.

The high costs imposed on US-shipping firms to conduct coastwise shipping prevent American firms from competing against foreign firms. This fact is obvious when looking at the make-up of the United States Merchant Marine. It consists of 418 US-registered vessels of various sizes owned by US firms¹¹. Additionally, there are 734 ships operating in US waters which are registered in other countries, and 86 others which are foreign-owned. Of the 418 ships, 111 are used by the Military Sealift Command, and are therefore withheld from participating in both domestic and international commerce¹². If the Jones Act was amended, then the US firms could buy non-American built ships and the fleet of the US Merchant Marine would increase greatly.

The Jones Act should be amended to allow US shipping firms to operate ships built elsewhere in the world for both domestic and international trade. If firms could buy these cheaper vessels, it would reduce the costs to the firm, and allow them to charge less for

⁹ James Brooke, “Korea reigns in shipbuilding, for now,” *New York Times*, January 6, 2005, accessed December 7, 2010, http://www.nytimes.com/2005/01/05/business/worldbusiness/05iht-ships.html?_r=1.

¹⁰ “Shipbuilding,” Wikipedia, 2010, accessed December 7, 2010, http://en.wikipedia.org/wiki/Ship_building.

¹¹ “The World Factbook – United States of America,” *Central Intelligence Agency*, November 24, 2010, accessed December 7, 2010, <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html#top>.

¹² “Ship Inventory,” Military Sealift Command, accessed December 7, 2010, <http://www.msc.navy.mil/inventory/>.

transporting goods, and thus ease the burden on consumers. Additionally, the US firms could begin to increase their trade overseas, and serve a greater number of ports without fear of violating federal laws. As more US-flagged ships entered the market, there would be more job opportunities for sailors, and US sailors would become more efficient for fear of losing their jobs to foreign sailors. The amending of the protectionist law known as the Jones Act would have reaching effects on international trade and American cabotage.

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