

AN ECONOMIC ANALYSIS OF THE JONES ACT

The Jones Act is a law that reserves domestic shipping for vessels that are built, owned, crewed, and flagged in the United States. In the near-century since the act's enactment in 1920, its provisions have imposed costs on American businesses and consumers.

In “[An Economic Analysis of the Jones Act](#),” Thomas Grennes, an emeritus professor of economics at North Carolina State University, weighs the benefits and costs of the law and its effects on businesses based in the United States. He particularly examines states and territories not attached to the mainland United States—Alaska, Hawaii, Puerto Rico, and Guam—which have suffered the most from the restrictions of the Jones Act.

BENEFITS AND COSTS OF THE JONES ACT

Nearly all analytical studies have found that conventional protectionism such as the Jones Act imposes net losses on the US economy. However, this paper also examines a benefit that is much more difficult to measure: national security. On this issue, supporters of the Jones Act cite the following arguments:

- There are more domestic ships available for conversion to military vessels when needed.
- Domestic shipyards have more experience with building ships suitable for the American military if needed.
- The threat of terrorism is theoretically lessened by the act's requirement for an American crew.

In addressing these benefits, the study looks at the four major requirements of the Jones Act.

- *Ships must be built by Americans.* This is the most protectionist part of the act. It reduces the incentive for domestic producers to innovate because they do not have to compete with foreign producers.

For more information, contact
Camille Walsh, 703-993-4895, cwalsh@mercatus.gmu.edu
Mercatus Center at George Mason University
3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

- *Ships must be owned by Americans.* Ownership is difficult to determine in an era of multinational corporations. The citizenship of these corporations changes daily with the trade of stocks.
- *Ships must fly an American flag.* Because of the amount of regulations and taxes on US-flag ships, these domestic businesses are largely uncompetitive with foreign businesses.
- *Ships must have an American crew.* American crews are often more expensive, and they are employed almost exclusively on the decreasing number of American flag vessels.

Proponents of the Jones Act argue that it is unwise to permit foreigners to travel along American rivers and waterways in these days of terrorist activity. However, the operational control of a ship is much more important than the citizenship of its crew in preventing terrorist attacks.

POLITICAL ECONOMY OF THE JONES ACT

- The main beneficiaries of the Jones Act are those groups protected from competition. Many supporters of the act have claimed that it does not impose any costs on consumers. But when interstate commercial shipping costs rise because of the law's requirements, those costs are passed on to the consumer through higher-priced goods.
- The Jones Act has remained in effect despite its overall costs because these costs are diluted among millions of Americans. Meanwhile, those who benefit from the act are generally smaller groups who can easily organize and lobby in favor of the act.

SUGGESTIONS FOR REFORM

Congress could enact any of the following reforms, which would all reduce the negative effects of the Jones Act:

- Repeal the Jones Act.
- Replace the Jones Act with a production subsidy.
- Exempt all regions from the Jones Act temporarily to see the change in effects.
- Exempt only the most harmed regions.
- Exempt all regions from only the "American-built" requirement in the Jones Act.
- Leave the Jones Act in place in its current form, and continue to bear net economic costs indefinitely.

Repealing the Jones Act in its entirety would provide the greatest economic benefits. However, a more moderate reform with strong economic justification would be to allow foreign-built ocean-going ships on routes involving the noncontiguous regions of the United States.