

Deep Water Port *notes*

The News Portfolio of The Connecticut Deep Water Port Community
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Domestic U.S. Shipping – Is there a Solution?

By Donald B. Frost, Deputy Editor

In the June edition of *Deep Water Port notes*, Paul Bea mentioned the Department of Transportation Maritime Administration's second National Maritime Strategy Symposium (May 6, 2014) which focused on domestic waterborne transportation. Everyone seems to recognize that our maritime infrastructure has not been maintained or upgraded to even late 20th Century standards. Clearly the ships have gotten too big for their ditches, but dredging ports and waterways is only a small part of US domestic maritime policy – or the absence of one.

None of the anti-competitive protectionist policies and laws used by the United States discussed at MARAD's first National Maritime Strategy Symposium (January 14-15-16, 2014) can work in today's world. In Economics 101 you learned that British Economist David Ricardo's 1817 treatise (*Principals of Political Economy and Taxation*) set forth the reasoning (*) why free trade is beneficial. Nowhere in his model is there mention of transportation or costs. He used as a model the trading of British woolens to Portugal in return for Portuguese wines to England using the building blocks of Land, Labor and Capital and the concept of "comparative advantage."

In the 1990s, Harvard Business School Professor Michael Porter suggested that in the age of globalization "competitive advantage" replaces "comparative advantage." My hypothesis is that in the 21st Century Transportation and Logistics are critical competitive advantages and are applicable to domestic transportation as well as international trade.

To increase manufacturing jobs in the United States we must abandon protectionism in all of its forms. Policies advocating or requiring that US trade, foreign or domestic, move in ships built in the United States are anticompetitive and create the kind of transportation monopolies that were outlawed in the Interstate Commerce Act of 1897 which dealt with the railroads. Viewing shipping as an exception must change.

The Build American part of the Merchant Marine Act of 1920 (The Jones Act), not only taxes ourselves, but is also an economic burden that results in exporting US manufacturing and process industry jobs. No U.S. seafarer jobs are retained or created by raising shipbuilding costs so high as to force shippers to move their goods by rail or highway, or sell them abroad to avoid high U.S.



Vessel *Barkald* outbound Long Island Sound after coal lightering operations at Bridgeport anchorage. Picture by Connecticut Senior Marine Pilot Captain Charles P. Jonas

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shipping rates, or buy foreign made materials or goods because the delivered cost will be cheaper than if sourced domestically and transported aboard U.S. built ships. The only reason why tankers are still built here is the protection from competition created by the Jones Act and elasticity of demand for energy is virtually zero.

I am told that Alaska was the first to recognize the costs of U.S. built ships and petitioned the Supreme Court in 1922 to declare the Build American part of 1920 Merchant Marine Act unconstitutional under the commerce clause of the U.S. Constitution. The Court refused to hear the case because the clause refers to commerce among the states and Alaska was not a state at that time.

I hope MARAD's final National Maritime Strategy takes a fresh look at "competitive advantage." Once again, keep in mind Einstein's definition of insanity: "Doing the same experiment using the same data over and over again and expecting different outcomes."

Footnotes: (*) – Ricardo concluded that trade between countries was influenced by relative costs of production and differences in internal price structures that could maximize the "comparative advantages" of the trading countries.

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