

Close Down the Maritime Administration (MARAD) and Repeal the Jones Act

SAVINGS IN MILLIONS OF DOLLARS

| 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2016-2020 | 2016-2025 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|-----------|
| \$150 | \$151 | \$151 | \$153 | \$156 | \$160 | \$163 | \$168 | \$171 | \$174 | \$761 | \$1,597 |

Heritage Recommendation:

Eliminate the Maritime Administration (MARAD) and repeal the Jones Act. Eliminating MARAD saves \$150 million in 2016, and \$1.6 billion over 10 years. No savings are included for repeal of the Jones Act.

Rationale:

Created in 1950, MARAD's purpose is to maintain a maritime fleet to be used during a national emergency. Decades later, it continues to oversee and implement outdated, Depression-era laws, which prevent foreign maritime industry companies from competing with those in the United States.

MARAD and the laws it implements are steeped in protectionism and subsidies. For example, taxpayers continue to pay for an Operating Differential Subsidy program that guarantees U.S.-flag vessel operators a payment to make up for the difference between shipping cargo on a U.S. vessel compared to a foreign vessel (the former being more expensive). Another program, the Ocean Freight Differential program, subsidizes part of the costs associated with having to transport food aid cargo on more expensive U.S.-flagged vessels, again as opposed to shipping them on foreign vessels. Finally, the Jones Act—established nearly a century ago in 1920—requires incredible standards: any cargo (or people) shipped between two U.S. cities must be on a U.S.-built and U.S.-flagged vessel with at least 75 percent of its crew from the U.S.

Congress should close down the Maritime Administration, transferring its international regulatory roles to another agency, such as the Department of State. The federal government should sell the government-owned ships in the Defense Ready Reserve Fleet and transfer funding for this program to the Department of Defense. Simultaneously, Congress should repeal the Jones Act, the Operating Differential Subsidy program, and Ocean Freight Differential program, which have spent billions of taxpayer dollars and stifled innovation of the U.S. domestic maritime industry.

Additional Reading:

- Wendell Cox and Ronald D. Utt, "How to Close Down the Department of Transportation," Heritage Foundation *Backgrounder* No. 1048, August 17, 1995, <http://www.Heritage.org/research/reports/1995/08/bg1048nbsp-how-to-close-down-the-department>.
- Brian Slattery, Bryan Riley, and Nicolas Loris, "Sink the Jones Act: Restoring America's Competitive Advantage in Maritime-Related Industries," Heritage Foundation *Backgrounder* No. 2886, May 22, 2014, <http://www.Heritage.org/research/reports/2014/05/sink-the-jones-act-restoring-americas-competitive-advantage-in-maritime-related-industries>.

Calculations:

Only the savings from closing down the MARAD are included. These savings are expressed as budget authority and were calculated by using the FY 2015 estimated spending levels as found on page 1,027 of "Appendix, Budget of the United States Government, Fiscal Year 2015," March 2014, <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/dot.pdf>. The FY 2015 estimated spending level was used instead of the FY 2014 enacted level because the FY 2014 enacted level was markedly higher than the FY 2013 or FY 2015 levels. The FY 2015 estimated level was increased at the same rate as discretionary spending for 2016–2025, according to the CBO's most recent August 2014 baseline spending projections.