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The U.S. Merchant Marine: Back to the Future?

Christopher J. McMahon

THE U.S. MERCHANT MARINE

Back to the Future?

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The marketing of our productions will be at the mercy of any nation which has possessed itself exclusively of the means of carrying them; and our policy may be influenced by those who command our commerce.

PRESIDENT THOMAS JEFFERSON, MESSAGE TO CONGRESS

To the spread of our trade in peace and the defense of our flag in war, a great and prosperous merchant marine is indispensable. We should have ships of our own and seamen of our own to convey our goods to neutral markets, and in case of need, to reinforce our battle line.

PRESIDENT THEODORE ROOSEVELT, LAST ANNUAL MESSAGE TO CONGRESS

To speak plainly we have grossly erred in the way in which we have stunted and hindered the development of our merchant marine. . . . It is necessary for many weighty reasons of national efficiency and development that we should have a great merchant marine. . . . It is high time we repaired our mistakes and resumed our commercial independence on the sea.

PRESIDENT WOODROW WILSON, MESSAGE TO CONGRESS

The epigraphs that open this article are but three of a vast number of quotes from U.S. presidents, members of Congress, and military leaders calling for support of a U.S.-flag merchant marine.[1] Throughout American history, dozens of laws have been proposed and passed that have, in varying degrees, supported the operation of U.S.-flag ships in both coastal and international trade; no law ever passed has called for a reduction in or the elimination of U.S.-flag ships. And yet, despite periods of great growth at various times in U.S. history, the U.S. Merchant Marine, once again, is in serious decline today.

In keeping with so many of our nation's political, military, and maritime leaders throughout American history, this article contends that relying substantially on foreign-flag shipping for either strategic or commercial purposes places the

United States in an extremely vulnerable position. Our history has proved this repeatedly through the centuries. Once again today, it is in the interest of the United States to take serious and comprehensive steps to reverse the declining trend of the U.S. Merchant Marine. Through various tax incentives and other innovative promotional programs (notably, *not* involving additional direct subsidies to the industry), it is possible to do this—and for America's merchant marine, yet again, to regain its position as a leader in maritime commerce.

This article will trace the highlights of America's commercial shipping history and present the reasons why the U.S. Merchant Marine engaged in international trade is in steep decline. It will provide reasons why support for a U.S.-flag merchant marine is still critical to the economic prosperity of the country despite its reliance for the past several decades on foreign-flag shipping. It will also explain the critical role that U.S.-flag shipping plays in America's ability to project military power around the world.

In other words, the article will provide the "why" a U.S.-flag merchant marine is a strategic industry that is crucial to national security. By congressional mandate (the Howard Coble Coast Guard and Marine Transportation Act of 2014), the Maritime Administration is developing a National Maritime Strategy that (at this writing) will be available for review in late 2015 or early 2016. This strategy will provide the "how" to revitalize the U.S. Merchant Marine so that it can, once again, become a healthy and viable commercial industry.

THE U.S.-FLAG MERCHANT MARINE IN THE EARLY YEARS OF THE REPUBLIC

There is little question that the founding fathers of America understood the importance of U.S.-owned, -operated, and -flagged commercial ships. Early U.S. presidents were concerned that a lack of U.S.-flag ships could disrupt America's vital trading economy in times of international conflict. After approval of the Constitution, when the first Congress convened in 1789, one of its first acts was to pass a law that, among other things, provided for a 10 percent reduction in tariffs on imported goods carried aboard U.S.-flag ships. As a result, American-flag shipping began to expand almost immediately in the new Republic.[2] In 1789, U.S.-flag vessels carried 23 percent of American imports and exports; by 1800, this number had jumped to 89 percent.[3]

To support the U.S.-flag shipping industry further, Congress enacted cabotage laws during the first decade of the 1800s.[4] Today some critics of the Merchant Marine Act of 1920 (commonly known as the Jones Act) believe the restrictions placed in the law to support U.S.-flag shipping—expressly prohibiting the movement of goods between U.S. ports aboard foreign vessels—are of relatively recent vintage; but they were originally passed in 1817. Congress and the president passed the 1817 law because they understood the importance of having a U.S.-flag merchant marine to carry the nation's trade. The law was briefly suspended during World War I because the U.S. Merchant Marine had so atrophied that it could not support U.S. trade, foreign or domestic. In 1920, cabotage laws were reestablished in the Jones Act.[5]

For the first sixty years of the American Republic, the U.S. Merchant Marine enjoyed substantial benefits provided by the federal government. Cabotage laws and tariff duties on foreign vessels carrying U.S. imports and exports promoted U.S.-flag shipping. Perhaps more important, U.S.-flag ships could compete against other flags because there were very few competitors. Another advantage was that U.S.-flag vessels were constructed of wood in U.S. shipyards; easy access to the raw materials made the ships relatively inexpensive to build. For these reasons, during the first half of the nineteenth century U.S.-flag shipping enjoyed a so-called golden age. During this period, U.S.-flag ships carried 75 to 80 percent or more of America's foreign commerce.[6]

THE DECLINE OF THE U.S.-FLAG MERCHANT MARINE, 1850–WORLD WAR I

The advent of the industrial age, with its development of iron ships and steam engineering, ended the glory days of the U.S. Merchant Marine. In the second half of the nineteenth century, European countries emerged as the first industrial powers, with Great Britain in the lead, and it was the merchant ships of Great Britain, and later other European industrial powers, that captured the world lead in number of cargo ships and their cargo-carrying capacity and efficiency.

Other important factors contributed to the continuous decline of the American merchant marine from the 1850s to World War I. By the 1860s, it was clear that the time of wooden sailing ships was over and the era of steam and steel had arrived. U.S.-flag operators sought permission to purchase foreign-built steamships for their fleets, hoping that, in time, U.S. shipyards would adopt the new technologies. Unfortunately, the U.S. shipbuilding industry—still constructing only wooden vessels—strongly opposed this measure, so it failed to gain sufficient political support.[7] As a result, many U.S.-flag shipping companies went out of business.

The American Civil War added to the problem. When the Confederate states sank Union commercial vessels, Northern shipowners sought protection for their vessels from the Union Navy, but the federal government was unwilling or unable to provide it. So, to protect their investments, many owners reflagged their vessels to neutral states.

Despite the wartime reflagging of many U.S.-flag vessels, the American merchant marine was still carrying 32.2 percent of the reunified country's imports and exports after the Civil War.[8] By the war's end, however, many merchant ships were in poor physical condition. To make matters worse, those shipowners who had reflagged their vessels to neutral flags during the war were considered traitors, and Congress passed a law specifically forbidding the retransference of these vessels back to the U.S. flag.[9]

By 1914, the U.S. Merchant Marine was carrying less than 8 percent of the nation's commerce. Another major factor contributing to this decline was absolute apathy on the part of most of the American public and politicians concerning the demise of America's sealift capabilities.

Such apathy is perhaps understandable, given the context of the times. Prior to the 1860s, America was a commercial maritime power. The nation and its people thought in maritime terms. Most Americans lived near the sea. The nation was huge in comparison to those of Europe, yet the interior of the country was only sparsely settled, still largely in the hands of native peoples. Roads were poor or nonexistent, and railroads were few and far between. People mostly traded and traveled by sea or on inland waterways. Even the 1840s Gold Rush to California was essentially a maritime event: only a tiny percentage of "forty-niners" traveled west by wagon train. Instead, the vast majority went by sea, either transferring overland via Panama from an American ship to another American ship, or taking the long voyage around Cape Horn aboard one of the famed American-flag California clipper ships.

After the Civil War, however, America turned inland and forgot its maritime roots. There was a continent to explore and settle. The explosive growth of railroads crisscrossed the entire country with new rail lines. Vast numbers of immigrants arrived from inland parts of Europe; their only understanding of the maritime world was their often-terrifying North Atlantic crossing in steerage aboard an overcrowded sailing or sail-assisted steam vessel. As inland territories, far from the sea, developed into states, their elected representatives brought to Washington a limited understanding of all things maritime. As a result, public interest in and knowledge of maritime affairs—including a U.S.-flag merchant marine—waned, becoming much more limited than in the early decades of the Republic.

Despite the overall lack of support for a U.S.-flag merchant marine in the decades following the Civil War, there were many political leaders, including members of Congress and officials in various presidential administrations, who understood that the decline in the number of U.S.-flag ships placed the country in jeopardy. This danger became particularly evident in the decades after the 1860s as America became a major industrial power and an exporter of manufactured goods, slowly emerging onto the world stage as a military power as well. For these reasons, mail-subsidy and tariff legislation was enacted to support the operation of U.S.-flag shipping in international trade. Policy makers hoped that these efforts would reverse the ongoing decline in the number of U.S.-flag ships. Unfortunately, competing political interests caused most of these efforts to fail, and several scandals related to mail-subsidy payments caused other efforts to falter as well. Nothing worked, because the political will in Washington did not exist to support a U.S.-flag merchant marine, and the American public at large perceived no particular value in a U.S.-flag fleet.[10]

Curiously, it was an American, Alfred T. Mahan, who dramatically energized global powers, including, eventually, the United States, about the critical importance of commercial flag-state merchant shipping and accompanying naval power. In his seminal work *The Influence of Seapower upon History* (based on a series of lectures given at the U.S. Naval War College, in Newport, Rhode Island, and published in 1890), Captain (later Rear Admiral) Mahan, USN, concluded that merchant shipping was both a source of maritime power and something navies needed naturally to defend. Geoffrey Till, in his *Seapower: A Guide for the Twenty-First Century,* observes that "Mahan even came close to saying this was the reason navies existed in the first place."[11]

> The necessity for a navy springs from the existence of peaceful shipping and disappears with it, except in the case of a nation that has aggressive tendencies and keeps up a navy merely as a branch of the military establishment.[12]

Mahan's reasoning was that maritime trade (and thus a flag-state merchant marine) arises in a natural manner, as nations are inclined to create trade in order to obtain wealth. A nation wishing to protect its ships and trade lanes needs a navy. In a world filled with competing nations and empires, the nations with the largest and most powerful battle fleets will be the wealthiest and most powerful.[13]

That Mahan's theories influenced maritime nations is an understatement. The British Empire at the turn of the twentieth century seemed to be proof positive of Mahan's assertions. Maritime nations in Europe and the Japanese in Asia strove to build up their merchant fleets and their navies and to develop and expand their empires further. America, too, seemed to listen to Mahan—but only as far as naval power was concerned. The U.S. Merchant Marine was still allowed to languish, and dependence on foreign-flag merchant shipping to carry America's commerce expanded even as America's exports increased during the late nineteenth and early twentieth centuries.

America's lack of commercial shipping capability manifested itself dramatically during the Spanish-American War in 1898. While the U.S. Navy had by then built several modern warships and was prepared to challenge the much weaker

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Spanish fleets in Cuba, Puerto Rico, and the Philippines, there was a severe shortage of military or commercial sealift to support the fleet away from American shores. In fact, during the war it was necessary to charter and purchase foreign ships to resupply the fleets, which caused long delays in military operations. Frankly, it was only because of the weakness of the Spanish fleet that the United States prevailed, and it was coincidental that the U.S. Navy was able to procure the necessary foreign shipping at all.[14]

While the Spanish-American War clearly demonstrated the inability of the United States to support naval operations offshore, the following year the Boer War in South Africa demonstrated the commercial vulnerability of the United States due to its dependence on foreign-flag shipping. As a result of its war with Dutch settlers in South Africa, the British government requisitioned British ships that had been carrying American commerce. Intended U.S. exports sat on the docks in U.S. ports or shippers paid exorbitant freight rates. A major disruption in trade resulted, causing serious damage to the U.S. economy. The absence of U.S.-flag shipping during this period caused consternation in public and private circles. Congress conducted a number of hearings that highlighted the vulnerability of the American economy because of its dependence on foreign-flag shipping. Despite this, little or no action was taken to correct the problem or develop support for the U.S. Merchant Marine.[15]

While America failed to grasp Mahan's insistence on the importance of controlling commercial shipping, it did, however, expand its Navy under the leadership of President Theodore Roosevelt. The famed "Great White Fleet" consisted of sixteen battleships and escorts. In a show of rising American naval power, Roosevelt sent the fleet on a one-year around-the-world voyage from December 1907 to February 1909. However, once again, the scarcity of U.S.-flag commercial and strategic sealift manifested itself. During the battle fleet's circumnavigation, the Navy was forced to charter a hodgepodge fleet of numerous foreign-flag vessels from many nations to replenish and support the fleet—a situation that was not only embarrassing but indicative of strategic weakness. The vulnerability of the U.S. Navy having been made obvious yet again, several congressional committees took note—but still no concerted effort was made to promote U.S.-flag shipping.[16]

In the years leading up to World War I, American agricultural and industrial exports continued to increase substantially. America became an economic superpower even while the U.S. Merchant Marine continued to decline. Then, as now, Americans and American-owned businesses were confident that inexpensive foreign-flag shipping was sufficiently bountiful that it would be readily available if needed. This proved—again—to be a false assumption. With the outbreak of war in 1914, the American economy, dependent on international trade, experienced a lack of availability of commercial ships. The European nations that had previously provided the commercial sealift for the American economy withdrew their vessels for wartime purposes. This caused widespread disruption in trade; manufactured products piled up on American docks, in railcars, and in warehouses, and agricultural goods spoiled because they could not be conveyed to overseas markets. The American economy suffered greatly owing to a lack of commercial shipping.[17]

WORLD WAR I TO THE PRESENT

The extent of the damage to the American economy caused by the shortage of U.S.-flag shipping in 1914 was so serious that Congress finally decided to act. But this took time, and the insufficiency of commercial shipping continued to imperil the economy. Following numerous and lengthy hearings, the Shipping Act of 1916 was finally passed. It created a Shipping Board that was specifically designed to promote and assist the U.S. Merchant Marine. By the time the board was fully established, however, it was apparent the United States would soon enter the war, and the board was placed on a wartime footing. In October 1917, the board requisitioned the entire U.S. Merchant Marine.[18] In 1917, the Shipping Board initiated a huge shipbuilding program through the creation of an Emergency Fleet Corporation. Eventually, the board contracted for over 1,700 merchant vessels, an unprecedented effort. But American participation in the war was so short that only 107 ships were delivered before the armistice in November 1918.

However, the remaining vessels were completed by 1922, in hopes that U.S.-flag companies would purchase them, and some did. So—at least in numbers of potentially available merchant ships—the United States ranked number one in the world following World War I. But the country never followed through on this advantage.[19]

Unfortunately, the period 1920–36 saw the U.S.-flag merchant marine dramatically decline once again. Although the federal government now included a Shipping Board designed to support U.S.-flag shipping, the board had no authority or funding to provide direct aid to the ailing industry. A Merchant Marine Act in 1928 established subsidies in the form of mail contracts, but this program, like its predecessors, was a failure; mail subsidies were awarded without regard to the needs of U.S. commercial shippers or the postal service.[20]

By the mid-1930s, the condition of the U.S. Merchant Marine was dire. The Great Depression had wreaked havoc on U.S. trade. Nearly all U.S.-flag ships in international trade were old and obsolete. The numbers and types of vessels were totally inadequate to handle even a tiny portion of U.S. trade, let alone sustain the nation or its military in a national emergency. However, the Roosevelt administration and leaders in Congress instinctively knew this, and with war clouds looming on the horizon in Europe and Asia they decided to take decisive action. The result was watershed legislation: the Merchant Marine Act of 1936.[21]

The relevant text of the 1936 act opens as follows (emphasis added):

> SECTION 101. It is necessary for the national defense and development of its foreign and domestic commerce that *the United States shall have a merchant marine* (a) *sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States* and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States insofar as may be practicable, and (d) composed of the best-equipped, safest, and most suitable types of vessels, constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine.[22]

The Merchant Marine Act of 1936 recognized that it was more expensive to construct vessels in a U.S. shipyard and that operating costs of U.S.-flag ships were higher than those of many foreign-flag operators. Accordingly, the act authorized both construction and operating subsidies. The law also established or expanded existing cargo preference programs, requiring that all military cargoes and a portion of other government cargoes be carried aboard U.S.-flag vessels. The law created the Maritime Commission, the predecessor to the current Maritime Administration (MARAD). Still another major aid contained in the act was the creation of a Construction Reserve Fund (CRF). According to MARAD:

> The Construction Reserve Fund (CRF), authorized by 46 U.S.C. Chapter 533 (the Act), is a financial assistance program which provides tax deferral benefits to U.S.-flag operators. Eligible parties can defer the gain attributable to the sale or loss of a vessel, provided the proceeds are used to expand or modernize the U.S. merchant fleet.[23]

The effects of the Merchant Marine Act of 1936 were both immediate and profound. By the time America entered World War II, U.S. shipyards were building large and ever-increasing numbers of commercially viable ships. After America entered the war it began building commercial ships in record numbers. In total, more than 5,500 merchant ships were built to support the war effort. By the end of World War II, the United States controlled 70 percent of the existing merchant shipping tonnage in the world.[24]

Once again, however, the United States did not capitalize on this investment or its potential for the U.S.-flag merchant marine. In 1946, Congress passed the Ship Sales Act. This act set up a priority system for the sale of the "surplus" commercial vessels built in U.S. shipyards for the war effort. Buyers included domestic and foreign shipping companies that had lost part or all of their commercial fleets during the war. The intent of the Ship Sales Act was to enable allied countries to recover from the war. They could use these ships, purchased at low cost, to reestablish their trade by carrying cargo in global trade, thereby earning hard currency (dollars).

Ultimately, some of the ships sold under the Ship Sales Act ended up flagged in Panama and Liberia. Companies and individuals created "flags of convenience" (FOCs)—a system that guaranteed U.S.-flag vessels could not compete against FOC ships. Profits from vessels registered in FOC nations were tax-exempt; crew wages were kept extremely low; and vessel inspection, safety, and maintenance standards were minimized.[25]

While, in the eyes of many, the Ship Sales Act of 1946 achieved many of its goals, the act also limited the ability of the U.S.-flag merchant marine to capitalize on the massive investment America had made during World War II in creating the world's largest merchant fleet.[26]

Not surprisingly, during the 1950s and 1960s the U.S. Merchant Marine slowly declined from its postwar size and capacity. Federal aid to U.S.-flag shipping continued as outlined in the Merchant Marine Act of 1936, but this was insufficient to prevent the dramatic and sustained rise of FOC shipping. Slowly but surely the majority of the world's merchant ships became flagged in FOC nations or states whose national fleets were government owned.

The last major piece of legislation promoting the U.S. Merchant Marine (and the U.S. shipbuilding industry) was the Merchant Marine Act of 1970, signed into law by President Nixon. The main purpose of the 1970 act was to promote the construction of U.S.-flag ships in U.S. yards by providing construction subsidies to traditionally nonsubsidized U.S.-flag carriers. The act also authorized carriers to establish "capital construction funds" (CCFs) into which they could deposit earnings earmarked for the construction of new vessels, thereby making them tax-exempt.[27]

According to MARAD—

> CCF vessels must be built in the United States and documented under the laws of the United States for operation in the Nation's foreign, Great Lakes, Short-Sea Shipping or noncontiguous domestic trade or its fisheries. Participants must meet U.S. citizenship requirements.[28]

In the 1970s, there was a substantial shift in attitude toward the U.S.-flag merchant marine, strategic sealift, and the government's role in promoting both. From a strategic perspective, military planners were concerned about the continuing decline of the U.S. Merchant Marine. To compound their concern, the

U.S.-flag companies that were still financially healthy at the time were converting, or had already converted, their fleets to containerships, which limited their presumed military usefulness in strategic sealift emergencies. To address these concerns, in 1976 the Ready Reserve Force (RRF) was created.

As MARAD notes,

> The Ready Reserve Force (RRF) program was initiated in 1976 as a subset of the Maritime Administration's (MARAD) National Defense Reserve Fleet (NDRF) to support the rapid worldwide deployment of U.S. military forces. As a key element of Department of Defense (DOD) strategic sealift, the RRF primarily supports transport of Army and Marine Corps unit equipment, combat support equipment, and initial resupply during the critical surge period before commercial ships can be marshaled. The RRF provides nearly one-half of the government-owned surge sealift capability. Management of the RRF program is defined by a Memorandum of Agreement (MOA) between DOD and Department of Transportation (DOT).
>
> The program began with 6 ships in 1977, peaked at 102 in 1994, and now consists of 46 ships including: 35 roll-on/roll off (RO/RO) vessels (which includes 8 Fast Sealift Support vessels (FSS)), two heavy-lift or barge carrying ships, six auxiliary crane-ships, one tanker, and two aviation repair vessels. Two RRF ships are homeported in the NDRF anchorage in Beaumont, Texas. The balance are berthed at various U.S. ports. Layberth facilities are leased from commercial sources and by negotiating for government owned facilities. These outported locations are coordinated with military planners and chosen to minimize sailing time to strategic loadout ports. Outported RRF ships are also used as training platforms for cargo handling by Navy and Army units and for homeland security training by various law enforcement agencies.
>
> RRF ships are expected to be fully operational within their assigned 5 and 10-day readiness status and sail to designated loading berths. Commercial U.S. ship managers provide systems maintenance, equipment repairs, logistics support, activation, manning, and operations management by contract. Ships in priority readiness have Reduced Operating Status (ROS) maintenance crews of about 10 commercial merchant mariners that are supplemented by additional mariners during activations. Readiness of the RRF is periodically tested by DOD directed activations of ships for military cargo operations and exercises.[29]

In the years leading up to the passage of the Merchant Marine Act of 1936 it had been politically accepted that a U.S.-flag commercial fleet was critical to the economic health of America. (The wording of the 1936 act proclaims this.) It was also believed to be essential for the federal government to support the U.S.-flag merchant marine for both commercial and military purposes. However, after World War II support for the U.S.-flag merchant marine gradually waned over the decades. By the early 1980s, current political thinking considered federal subsidies to the industry an anathema. As a result, in 1980, construction subsidies were suspended, and operating subsidies were withdrawn as existing subsidy contracts expired. The outlook for the U.S. Merchant Marine engaged in international trade was again dire. By 1990, as operating subsidies did expire, numerous ships were withdrawn from U.S. service. Many U.S.-flag companies filed for bankruptcy and ended their services. The U.S.-flag international fleet was headed for extinction.

In response, military, congressional, and other government leaders noted that while MARAD's RRF offered an effective and rapid source of ships for strategic deployment, even the RRF and the sealift capabilities of Military Sealift Command together could not sustain a serious and prolonged U.S. military deployment overseas. As later sections of this article explain, further support from a commercial U.S.-flag merchant marine was and is essential for strategic sealift requirements, as was proven in all American wars of the twentieth century, including Operations DESERT SHIELD and DESERT STORM. Accordingly, in 1996, Congress passed and the president signed the Maritime Security Act of 1996 (MSA), which established the Maritime Security Program (MSP).

> The [National Defense Authorization Act] of 2013 requires . . . the Secretary of Transportation, in consultation with the Secretary of Defense, to establish a fleet of active, commercially viable, militarily useful, privately-owned vessels to meet national defense and other security requirements. Authorized annual funding . . . support[s] the operation of 60 U.S.-flag vessels in the foreign commerce of the United States. . . . Participating operators are required to make their ships and commercial transportation resources available upon request by the Secretary of Defense during times of war or national emergency.
>
> The MSP maintains a modern U.S.-flag fleet providing military access to vessels and vessel capacity, as well as a total global, intermodal transportation network. This network includes not only vessels, but logistics management services, infrastructure, terminals facilities and U.S. citizen merchant mariners to crew the government owned/controlled and commercial fleets.[30]

TODAY'S U.S.-FLAG MERCHANT MARINE AND AMERICA'S ATTITUDE TOWARD THE INDUSTRY

The U.S. Merchant Marine today is a "tale of two fleets." On the one hand, the cabotage laws restricting intra-U.S. shipping to U.S.-flag vessels have ensured that the so-called "Jones Act fleet" is in a relatively healthy position, because potentially lower-cost foreign-flag shipping is excluded from this transportation market. On the other hand, the U.S. Merchant Marine engaged in international trade is essentially on life support. All the ships in international trade rely on the MSP or cargo preference. With fewer than eighty-five U.S.-flag ships engaged in international trade, the U.S. Merchant Marine carries less than 2 percent of

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America's import and export commerce. In other words, taken as a whole, the U.S. Merchant Marine would not exist without the protection and incentives provided by law—some of which have been in place since the early years of the Republic. So how does this sit with the American public?

As was noted earlier, during the colonial period in America and during the first several decades after the founding of the Republic, America thought and acted as a maritime nation. Americans largely lived near the sea or major inland rivers; they thrived because of waterborne trade; and they knew they must have unfettered access to ships and shipping. This meant possessing a U.S.-flag merchant marine. As America grew in the nineteenth century, so too did its merchant marine—by midcentury it carried over 80 percent of America's commerce.[31] But as America settled the continent in the latter half of the nineteenth century, Americans and America's economy as a whole turned inward from the sea and essentially lost their international maritime focus. Today, although the United States is, physically and geopolitically, a maritime nation (surrounded by the sea on three coasts; with a fourth coast on the Great Lakes; with its newest states—Hawaii and Alaska—accessible primarily by water; and possessing commonwealths and territories on the sea), Americans are not maritime-minded people; they are continentally minded people. Lest anyone think differently, conduct a quick survey of just about any group of Americans with questions such as these:

1. What is the merchant marine?
2. How did your new flat-screen TV, manufactured in Japan, get to your local store?
3. What is strategic sealift?

The point will quickly be made. This situation is strange given that, excluding trade with Mexico and Canada, over 90 percent of America's international trade travels by sea on merchant ships.

The result of America's lack of a maritime psyche means the nation as a whole does not comprehend the value and need for U.S.-flag shipping. To be sure, the nation does in general understand the importance of its Navy. In the last century and this one, the U.S. Navy has been engaged in so many wars and conflicts that most Americans clearly see it as a vital American asset, one that protects the security of America and its allies and projects national power abroad. As noted earlier, the great naval theoretician Alfred Mahan believed that maritime nations should support, in every way possible, their navies and their merchant fleets in order to develop, expand, and defend their power and wealth. But in America, except for a small number of military, political, and maritime leaders, we have lost appreciation for the second part of what it means to be a maritime power: both navies *and merchant fleets* are critical components.

Maintaining a navy costs money, and because of standards of living and labor rates it costs more to build and operate U.S. Navy ships than it does navy vessels in other countries. Yet relatively few question the need for these federal expenditures because the public clearly understands the mission and purpose of the U.S. Navy. Building up and operating a U.S.-flag merchant marine—one that, in the words of the Merchant Marine Act of 1936, is "sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States"—would require similar federal assistance in terms of funding and other support programs. Simply put, it costs more to build and operate U.S.-flag ships because foreign-flag vessels, particularly FOC vessels, can operate with very-low-cost labor and pay little or no tax on revenues.

That Americans in general do not understand the critical importance of U.S.-flag ships to the strategic and economic health of America is clear. Some even suggest that Mahan was wrong when he stated that a commercial merchant fleet, flagged within the country, is an essential component, along with a strong navy, of maritime power. This line of thinking suggests that maritime power can be based solely on the strength of a country's navy. In other words, these commentators suggest that "Mahan is in need of revision."[32]

Numerous books and articles have been written not only deriding federal support for a U.S.-flag merchant marine but going further, to suggest that a U.S.-flag merchant marine isn't even necessary for either economic or military reasons. A recent Heritage Foundation article, for example, suggests that "[t]he Jones Act drives up shipping costs, increases energy costs, stifles competition, and hampers innovation in the U.S. shipping industry." The article also, curiously, suggests that "[t]he Persian Gulf conflict in the early 1990s proved that the Jones Act was not a necessary element in supplying and sustaining a military operation." The article further asserts that "the Jones Act and its supporters inadvertently hinder national security."[33] While it may have been written in the spirit of free-market competition, this article fails to consider the economic and strategic roles of U.S.-flag shipping, and critical analysis does not support the report's conclusions.[34]

People and organizations who call for exclusively free-market competition argue that, along with all other economic sectors, marine transportation (including both international and domestic shipping) should operate completely within the free market. "Let the lowest-cost operator provide the service," the reasoning goes. "If we allowed this to happen, transportation costs for American exporters and consumers related to importing and exporting goods would be reduced—right?" In a perfect world, the answer would be yes. However, consider this: Should we eliminate the "Jones Act–like" provisions that limit service on domestic air routes to American air carriers? Perhaps we should also allow foreign trucking companies and railroads unrestricted access to our territory? Let international air carriers offer services to and from all American airports. Let foreign trucking companies and railroads have complete access to the American transportation network. Wouldn't this lower the cost to American consumers? It probably would.

But what would the picture eventually look like if, in keeping with free markets and in pursuit of cost efficiencies, we dispensed with all laws that protect U.S.-flag shipping, U.S.-flag air carriers, U.S. trucking, and U.S. railroads, as well as those laws that restrict employment to U.S. labor? In time, American skies, waterways, roads, and rails would be dominated by foreign carriers, because services in the transportation industries can be performed more cheaply by some foreign competitors. Quite possibly there would be no American transportation carriers—they would be driven out of business. While this might seem an unlikely scenario, in a purely free-market situation it would in fact be quite likely to occur.

Most readers of this publication will quickly understand the danger in which this would place the American economy, to say nothing of the threat to American security and the loss of American jobs. Yet opening maritime shipping to international carriers for domestic as well as foreign commerce does not seem to concern most Americans. Americans, being largely not maritime minded, do not understand how critical the American shipping industry is to the strategic and economic health of the nation.

SO WHY IS A U.S.-FLAG MERCHANT MARINE IMPORTANT?

To begin with, in simple terms, the U.S. Merchant Marine matters because U.S.-flag ships in international trade guarantee reliable access to shipping for exports from and imports to the United States. The more U.S.-flag ships there are, the more reliable the access; the fewer U.S.-flag ships there are, the less reliable that access might be. This applies to both economic and strategic sealift.

Regarding strategic/military sealift, most—although admittedly not all—people with knowledge of the industry understand that a U.S.-flag merchant marine is critical. The performance of the U.S. Merchant Marine in the twentieth century in two world wars, Korea, Vietnam, the Gulf wars, and several other global conflicts has clearly highlighted the reliable and efficient nature of our merchant marine in times of national conflict. Those who suggest that the military can rely in part or in total on foreign-flag ships to carry military supplies in a U.S. national emergency do not understand two key points (laid out below, with subpoints).

First, foreign-flag vessels and crews cannot be counted on to sail into harm's way during a "hot war" in which merchant ships may come under fire because they are supporting the U.S. military. Despite the relatively benign military environment of the Persian Gulf during the Gulf wars, foreign-flag ships chartered by the U.S. military did, on occasion, refuse to deliver cargoes;[35] in an environment in which merchant ships are actually being fired on, it is unlikely foreign-flag ships could be relied on at all. This would be particularly true if merchant shipping were being sunk by enemy action. During the Falklands War, in the aftermath of the sinking of the U.K.-flagged commercial containership M/V *Atlantic Conveyor,* the British would have been severely challenged to charter a foreign-flag vessel for sealift. In today's world, with a widening array of antiship missiles, the proliferation of conventional diesel-powered submarines, and other antiship capabilities, the sinking of merchant ships in an armed conflict would be very likely. The fact that this has not occurred in recent conflicts is pure happenstance. In conflicts involving military sea lines of communication and logistics involving merchant shipping, destruction of shipping is still a priority for military planners in all countries.

Second, for political or economic reasons, there may be no available foreign-flag ships to support U.S. military deployments or sustainment. Because of the circumstances of particular conflicts, flag states (including FOC nations) may refuse to allow their vessels to enter a war zone so as not to offend an ally or related business interest. In war zones, risk—and the resultant marine insurance rates—may rise to a level at which vessel operators and flag states are unwilling to allow their vessels to enter therein. Additionally, there may be no foreign-flag vessels available because operators do not wish to charter vessels to the U.S. military because they will lose market share from their regular, existing customer base and trade routes. In the highly competitive world of ocean shipping, market share is important. From a foreign operator's perspective, carrying U.S. military cargoes, even at premium rates, may be a poor business decision in the long term, which may discourage foreign-flag owners and operators from even considering such an option. In any case, for some or all of these reasons, the U.S. military could find itself in a situation in which foreign-flag shipping is not an option to support U.S. military operations.

WHAT CHINA HAS LEARNED

With U.S.$3.82 trillion in imports and exports (in 2013), the United States ranks just behind China as the largest trading nation on earth.[36] Less than 2 percent of America's overseas imports and exports are carried aboard U.S.-flag vessels. While some Americans with knowledge of the industry support a U.S.-flag merchant marine for military strategic sealift reasons, many of these same folks believe America can rely solely on foreign-flag shipping for the nation's normal commercial imports and exports. After all, hasn't history shown this to be true? Well, actually, it hasn't, as noted earlier in this article. Granted, the circumstances have been rare, but twice around the turn of the twentieth century (during the Spanish-American and Boer Wars), at a time when America relied heavily on foreign-flag shipping for its international trade, foreign-flag countries and companies withdrew their ships from U.S. service, resulting in a calamitous situation for the American economy. It is certainly possible for this same situation to manifest itself in the globalized world in which we live today.

For a major importing and exporting nation to rely completely on third countries to provide and control its logistics supply chain, including ships, creates a proven vulnerability. History has demonstrated this too often. China's history during the past three centuries provides a clear example.

Six hundred years ago China was the world's first major manufacturing nation. As the West industrialized, the Chinese developed very little interest in Western manufactured goods. Therefore the Chinese had no particular desire to control what would be described in modern terms as their "transportation and logistics supply chain." Instead the Chinese left the matter to others; but ultimately this cost them dearly, as they gradually lost control, or even influence, over their trade. Certainly naval power had a hand in this power shift, but so too did the absence of Chinese commercial maritime shipping capability and the Chinese basic lack of understanding of the importance of controlling commercial sealift and maritime trade.[37] This lesson was not lost on the Chinese after they established the People's Republic of China in 1949.

Since 1980, China has become an industrial heavyweight, recently eclipsing the United States in at least one metric as the largest economy on earth. This time around, however, the Chinese have not neglected their maritime industry. In fact, quite the opposite has occurred: the Chinese have developed their maritime industry, including commercial shipping, to the point where they have become the dominant maritime power in the world. With 5,313 oceangoing ships, China has become the number one owner and operator of commercial deep-sea merchant vessels.[38] China is also one of the top three shipbuilders in the world—by some metrics number one. In addition, China controls more ports and terminals around the world than any other nation, including terminals on both sides of the Panama Canal.[39] And in recent years, China—in true "Mahanian tradition"—has dramatically expanded its blue-water navy to protect its trade routes and commercial shipping, particularly in Southeast Asia and the Indian Ocean.

In other words, China now has military *and commercial* control over its transportation, logistics, and supply chain—its "sea lines of communication." The Chinese learned from their history that a powerful trading nation, to protect its economy and its strategic independence, needs not only to possess a capable navy but to have substantial control of its maritime industry and commercial shipping. This is a lesson that needs to be understood in the United States.

U.S. RELIANCE ON FOREIGN-FLAG SHIPPING

To say that the United States is overwhelmingly dependent on foreign-flag shipping for commercial trade is an understatement. As noted previously, U.S.-flag vessels carry less than 2 percent of the nation's overseas commerce. The United States today would also be dependent on foreign-flag shipping for military and strategic sealift purposes should America face another long-term military conflict. This is particularly true for the strategic transportation of petroleum-related products. There are only two U.S.-flag petroleum-product tankers in international trade, and most of the U.S.-flag tankers that do exist are either crude oil tankers in the Alaska trade or tankers needed for domestic transportation needs.

The lack of U.S.-flag containerships is also a serious concern economically and strategically. Where once there existed a large and diverse number of cargo-shipping companies around the world, the container-shipping industry has consolidated dramatically in recent years. Today, 60 percent of all cargo container shipments are handled by just ten companies.[40] As a 2014 article noted, according to the rating agency Fitch, the trend in the container-shipping industry is toward further consolidation, meaning that even fewer companies are likely ultimately to carry an even higher percentage of the world's—including America's—cargo containers.[41] Relying on a small number of companies for a critical service creates dangerous dependence in any situation. For this to happen to American shippers is potentially disastrous, as American history has proved. To make matters even worse, large numbers of containerships under construction are megaships with deep drafts exceeding the capacity of U.S. ports, meaning these ships will not be physically able to serve them.[42]

In summation, the availability of containerships to serve U.S. ports will be restricted if only a small number of companies exist, and if these companies are unable or unwilling to provide service to America for political, military, or physical reasons.

Another damaging possibility facing American shippers is the potential for soaring freight rates. Recall that both of these scenarios—lack of available shipping and high shipping rates—unfolded several times in the late nineteenth and early twentieth centuries and prior to both world wars. The economic theory that assumes that if existing containerships are not available to serve U.S. ports new companies will be established to offer the service doesn't work for the shipping world. The significant capital, long lead times, and specialized expertise and infrastructure necessary to enter the seagoing shipping business do not lend themselves to the entrance of new suppliers into the industry. This state of affairs is evident already in peacetime, with the industry consolidating into a relatively few companies worldwide.

EFFECTIVELY CONTROLLED U.S. SHIPS

Some refer to ships owned by Americans and U.S. interests but flagged in other countries—particularly FOC countries—as "effectively U.S.–controlled ships," or "EUSC ships." Over the years, the conjecture has been that these vessels would be available to the United States in times of national emergency. In fact, reliance on the availability of EUSC shipping has been a long-standing policy of the armed forces' Joint Chiefs of Staff. In 1989, for example, President George H. W. Bush signed a National Security Sealift Policy that reiterated an expectation of support from EUSC shipping.[43]

The problems with relying on EUSC shipping are twofold. First, while owners of EUSC shipping might theoretically be willing to support the United States in a national emergency, there is no guarantee the flag states of EUSC vessels would allow their vessels to be used to support U.S. interests or objectives. For example, the Chinese have numerous business interests in Panama, the country with the largest number of merchant vessels under its flag. China owns 534 vessels under Panamanian flag.[44] A Chinese company operates the two major marine terminals on either end of the Panama Canal.[45] For these reasons, the Panamanian government might be reluctant to allow the United States to use any vessel under Panamanian registry in a conflict between the United States and China. Further, EUSC vessels are crewed by foreign nationals, not Americans, and there is certainly no guarantee that foreign crews would be willing to serve on EUSC vessels in a U.S. conflict.

In any case, because of U.S. tax laws passed in 1979 and 1986, American owners of EUSC ships can no longer avoid paying taxes on their income. As a result, the number of EUSC ships has dwindled dramatically during the past two decades. Simply put, there are fewer American citizens involved in EUSC shipping than in past decades, to the point where it is no longer a viable source of ships for America in times of national emergency.[46]

THE U.S.-FLAG MERCHANT MARINE IS A STRATEGIC INDUSTRY

This article has briefly outlined the history of the U.S. Merchant Marine, and it has shown that without a sizable U.S. Merchant Marine capable of carrying "a substantial portion of the water-borne export and import foreign commerce of the United States," as prescribed in the Merchant Marine Act of 1936, America is vulnerable both economically and strategically. This has been borne out in numerous cases over the past 150 years, and it has been noted many times through the years by administrations and members of Congress from all parties and by military and maritime leaders.

Although some may not consider it to be such, the American merchant marine is a strategic industry. Our economy, more than ever, is dependent on reliable commercial shipping for import and export commerce. Our military is reliant on commercial sealift to ensure it can project American power around the world. Without available shipping, America would be in a serious situation—as we have been several times in the past two centuries. The impact on our economy of a lack of commercial shipping could be very serious. Accordingly, the American merchant marine should be viewed as a strategic industry.

There are numerous other American industries that, because of their importance to the nation, are understood to be strategic industries, and most if not all receive federal support in one form or another. The agricultural industry, for example, receives various subsidies to ensure that farming remains a viable profession—so America can feed itself. The energy industry receives subsidies, tax deductions, credits, and land leases that encourage companies to find new sources of energy and develop more efficient and economical means of energy production, and pipelines receive grants for safety and infrastructure improvements—so America can power itself. The transportation industry receives many subsidies: highways and roads receive billions of dollars a year for construction and maintenance; railroads receive subsidies through land and infrastructure grants and loans; passenger rail (Amtrak) receives operating subsidies; transit systems receive federal funding for construction and operation; the aviation industry receives large grants to support airport construction and maintenance, safety systems, and air traffic control—so America can keep its economy moving. A review of the General Services Administration's *Catalog of Federal Domestic Assistance* provides details on the 2,277 federal assistance programs to industries—many of which are considered strategic.[47]

The maritime industry does receive limited federal funding through the Maritime Security Program and various grants to ports and domestic operators. Some federal support is also provided through a limited number of tax incentives. MARAD is funded to provide for a fleet of forty-six strategic sealift vessels in the RRF. However, in total, the U.S. Merchant Marine receives only a minuscule amount of federal support. It is certainly not enough to encourage the expansion of the U.S.-flag fleet. In fact, the reverse is true. Federal support to the U.S. Merchant Marine engaged in international trade is so limited that the fleet continues to shrink to levels that are unacceptable from the standpoint of America's strategic and economic sealift security. This is a serious problem, considering the critical importance of commercial shipping to the American economy and military, and the present vulnerability created by reliance on foreign-flag shipping, with its potential for service disruption.

America doesn't necessarily require a U.S.-flag merchant marine capable of carrying a *majority* of U.S. imports and exports; but if the language of the Merchant Marine Act of 1936 were upheld, and the U.S.-flag merchant marine carried "a *substantial* portion" of U.S. commerce (emphasis added), this would reduce economic and military reasons for concern regarding potential disruptions in shipping, thereby improving America's security.

Ways of promoting the U.S. Merchant Marine and substantially increasing the number of U.S.-flag ships in international trade are available. One is to provide additional tax incentives to U.S. carriers, perhaps along with shipper tax incentives. Existing laws and regulations that discourage operators from flagging their ships in the United States could be revised. None of these efforts would require additional appropriations. As far as tax incentives are concerned, the U.S. Treasury is not currently benefiting from foreign-flag operators paying taxes, so having similar tax breaks for a larger number of U.S.-flag operators would have no significant impact on tax revenues.

CONCLUSIONS

During the past two years, MARAD has undertaken a major effort to create a National Maritime Strategy designed to promote the U.S.-flag shipping industry, particularly that part of the industry engaged in international trade. The MARAD effort has been conducted in an inclusive way that has involved listening sessions and meetings with industry, military, government, and congressional leaders. As noted previously, Congress also mandated the development of a new National Maritime Strategy in the Howard Coble Coast Guard and Marine Transportation Act of 2014.

It is clear that, since the founding of our nation, political, military, and maritime leaders have understood the importance of the U.S. Merchant Marine and realized its strategic and economic importance to America. A survey of American history reveals periods when the industry was supported, and it thrived; in contrast, during periods when the industry was not fully supported, it languished and declined. Like those of any maritime nation, America's economy and military power are, in part, based on our ability to control and manage commercial sealift.

Alfred Mahan was right: a substantial and capable U.S.-flag merchant marine and a powerful navy are equally important components of maritime power. This is a lesson that has been reinforced time and time again in American history. Simply put, America's national security depends on both. It is time to commit to a new and comprehensive National Maritime Strategy to rebuild America's merchant marine. We must learn from our maritime past, for, as the eighteenth-century Irish statesman Edmund Burke once said, "Those who don't know history are destined to repeat it."

NOTES

The views expressed in this article are solely those of the author and do not necessarily represent those of the U.S. government, the U.S. Department of Transportation, its modal agencies, or the Naval War College.

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Christopher J. McMahon is currently the Maritime Administration Emory S. Land Chair of Merchant Marine Affairs at the U.S. Naval War College. He is a graduate of the United States Merchant Marine Academy at Kings Point, New York, and holds master's degrees from American University, Long Island University, and Starr King School. He is an unlimited master mariner and a commissioned rear admiral, USMS. He has held several Senior Executive Service positions with the Department of Transportation and the Maritime Administration.

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