



Maritime Reindustrialization & Hysteresis¹

Executive Summary: The migration of commercial vessel ownership away from the U.S. was a critical point of weakness expediting the decline of American commercial shipping. While such behaviors were individually rational (firm), the systemic nature of such a critical industry was unpriced, unaccounted, and at times ignored, in favor of internationalism. What resulted was structurally a market failure: private operators capture tax and labor savings while the American public absorbs the social costs. These costs have been, until now, indirect and inferred. Today they are direct and real because of the continuous assault on the value America creates for global economies. This paper quantifies those unpriced externalities across four channels through vessel lifecycle and argues that re-shoring is not industrial policy but instead it is a Pigouvian market correction.

The Externality Ledger (\$Present Value Basis)

- **Defense/Sealift (~\$280M):** The U.S. currently pays for pseudo-commercial subsidies simply to maintain a freight reserve that domestic ownership would otherwise provide organically. Surge requirements exceed this fleet by nearly an order of magnitude.
- **Supply Chain Disruption (~\$91M):** Modeled via CAPM/Black-Scholes on correlated fleet dispatch, where disruptions provide empirical cost anchors.
- **Human Capital (~\$2B+ direct; >5x with fiscal draw):** Maritime labor markets exhibit hard hysteresis; below a threshold fleet size, the institutional capacity to reproduce the workforce is destroyed, not merely reduced.
- **Fiscal/Tax Base (~\$475M; ~\$10B economy-wide):** Dynamic scoring incorporating corporate tax, payroll, income tax, and IMPLAN multipliers reveals losses that dwarf static corporate tax estimates.

The Neutrality Illusion: Internationalism is no longer a geopolitical hedge operators assume. Neutrality has historically collapsed under conflict stresses, and in the current environment, conflicted port infrastructure leverage and targeting of vessels confirm that nominal neutrality fails precisely when its option value is highest.

Policy Prescription: Four Pigouvian corrections are proposed:

(1) tonnage tax reform calibrated to European competitive rates, extended to foreign-flag vessels under U.S. corporate control;

(2) MACRS depreciation parity for international-trade vessels;

(3) TSP/MSP restructured as a competitive reverse auction with payments declining as the domestic fleet grows; and

(4) DPA Title III designation unlocking capital incentives for U.S.-flag acquisition. Rather than direct payments subject to corporate capture, the proposed implied ~\$3M/vessel/year endowment would be routed into the existing Capital Construction Fund which funds approximately 30% of the U.S. build cost differential over a vessel lifecycle.

Bottom Line: The contingent liability accumulating on the U.S. national balance sheet across these four channels substantially exceeds the investment required to correct it. The question is not whether these costs will be recognized, but whether they are recognized proactively through policy or reactively in crisis.

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