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# How to Fix Broken Supply Chains and Lower Inflation

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Ranking Member Mike Lee (R-UT)

Joint Economic Committee – Republicans

[jec.senate.gov](http://jec.senate.gov) | G-01 Dirksen Senate Office Building Washington, DC 20510 | (202) 224-5171

## INTRODUCTION

American consumers and producers have faced nearly a year of sustained inflation that continues to accelerate. The [overall inflation rate in November](#) was 6.8 percent, its highest level in nearly 40 years. High inflation has been caused by elevated consumer demand for goods—[partly driven by government stimulus](#)—and stressed supply chains that are failing to keep up. The result is shipping delays, shortages, and rising prices that are [harming American families](#).

Some [argue](#) that Americans should respond to today's supply chain challenges by simply "buying less," while others [call for](#) restrictive domestic content requirements that would shift more production to the United States. Yet, restricting consumption would force American families to make sacrifices that undercut their economic well-being, and restricting trade would [lower our standard of living](#) by [reducing productivity](#), [limiting the availability of essential goods](#), and [increasing costs](#) for American families.

Instead, to counteract inflation, policymakers should remove long-existing government-imposed barriers to efficient supply chains that are currently driving up prices. Improving supply chain functionality is especially important as Congress continues to consider a [nearly \\$2 trillion](#) tax and spending package that would boost consumer demand, restrict worker supply, and [exacerbate inflation further](#).

## MAKE PORTS MORE EFFICIENT

U.S. demand for imports [has skyrocketed](#), driven by [an increase in online shopping](#) during a time when consumers did not feel comfortable traveling or engaging in services that require in-person interactions. This shifting consumer behavior was turbocharged by government policy to [sustain personal income](#) during the pandemic recession. Because [over half of U.S. imports](#) travel by sea, the added stress to ports revealed underlying problems with critical pieces of the supply chain.

For instance, ports have become so backlogged that container ships are forced to sit at anchor for days while they wait for unloading space, a highly unusual occurrence before the pandemic. At the two busiest U.S. ports—the ports of Los Angeles and Long Beach—the number of container ships at anchor increased nearly 8-fold from [11 in November 2020](#) to [86 in November 2021](#). This number, reported by the Marine Exchange of Southern California, has since [been cut by more than half](#), but only due to [a new policy](#) mandating that incoming vessels wait 150 miles off of California's coast. When those container ships are counted in the tally, there are [nearly 100 ships](#) still waiting for port access.

The average time that containers offloaded from shipping vessels sit on the dock at those ports before they are picked up for transport (known as “dwell time”) is also rising, recently [reaching 7.6 days in October](#), up from the pre-pandemic [2 day average](#). While signs suggest that [dwell times may be decreasing](#), they remain significantly higher than pre-pandemic levels. And once [new fees go into effect](#) charging shippers hefty fines (\$100 per container per day) for cargo containers that dwell at the ports, the increase in shipping costs will likely be passed down to consumers, further exacerbating already high inflation.

Congestion at ports is affecting more than just American consumers. As demand for imports remains high, shippers have been prioritizing the export of empty containers because they move across oceans more quickly than full ones. In other words, they are [choosing to forgo](#) transporting containers filled with U.S. exports and instead shipping empty containers back to Asia so they can more quickly pick up additional U.S. imports. As a result, U.S. farmers and businesses are left unable to deliver goods to consumers in other countries, causing [millions of dollars in losses](#). In October, 77 percent of containers leaving the Port of Los Angeles were empty, up 24 percentage points from the prior 10-year average.<sup>1</sup>

Confronted with higher demand for imports and lost export sales, ports need to concentrate on improving productivity to handle the additional cargo. The United States [ranks among the lowest](#) in the world for port productivity, with cargo volumes at U.S. ports [significantly lower](#) than ports in Asia.

The Biden Administration recently tried to solve this problem by [pushing for 24/7 operations](#) at ports—which is the norm in Asia—but it did not produce any real improvements. First, the transition to a 24/7 model at U.S. ports has been [slow or nonexistent](#), and second, there are simply [not enough truck drivers](#) coming to ports overnight to make a difference. And while dockworkers may be willing to work the longer shifts, their union contracts [would mandate daily overtime pay](#) by essentially prohibiting enough staggered shiftwork to cover 24 hours. Unnecessarily increasing pay in this way is an incredibly costly expense that will further increase transportation costs.

A better way to increase port productivity is to allow ports to adopt badly needed technological upgrades. A significant difference between Asian ports with high productivity and U.S. ports with low productivity is their automated terminals—the places where boats pull in to load and unload cargo. For instance, the port of Qingdao, home to China’s first [fully automated terminal](#), is one of the [most efficient ports in the world](#). Similarly, one of the world’s [most automated ports](#) in Rotterdam, Netherlands, is [80 percent more productive](#) than the port of Oakland, California.

The few U.S. terminals that have embraced automation experienced significant productivity benefits. Earlier this year, the port of Long Beach [completed the automation](#) of the terminal Pier F, which will enable the port to process an additional 1 million containers each year. [Two other largely automated terminals](#)

in Long Beach and Los Angeles have the fastest cargo turn times within their respective ports. In addition to automating terminals, technology has other useful applications that can increase overall port efficiency. For example, in the midst of port congestion, transportation workers are [increasingly utilizing software](#) to more easily schedule appointments that are required to pick up and drop off containers, and [new technology](#) has been developed that will minimize driver dwell time between container drop-offs and pick-ups.

Pursuing automation in the United States may be difficult, however, due to resistance from [the International Longshore and Warehouse Union](#). The union recently came out against new plans to automate [Terminal T at Long Beach](#) and preemptively announced that its members [will not work on any automated ships, which are currently in development](#). Alternatively, truck drivers do [support](#) increasing port productivity with automation. Union-protected dock workers are not incentivized to work quickly, leaving truck drivers waiting in lines for hours before they can pick up or drop off cargo.

Port automation takes time, and therefore it would not be a quick fix to today's issues. However, improving port productivity would help the United States increase its supply chain resiliency and prevent future instances of inflation exacerbated by supply chain inefficiencies.

## **REDUCE PORT REGULATION**

As ports struggle to process large amounts of cargo, reforming federal and local regulations would also help to ease bottlenecks. One example is [dual-transaction rules](#) imposed by the ports of Los Angeles and Long Beach, which are departments of city government. These rules require trucks to simultaneously drop off and pick up containers in order to secure an appointment and they also prevent truck drivers from picking up and dropping off containers at different terminals within the same port. Given record congestion at ports and [current restrictions](#) limiting truck drivers' abilities to drop off empty containers, dual-transaction rules make it harder for truck drivers to pick up cargo and ease port congestion. Single transaction appointments are available, but they are less preferred by ports so they are much harder to come by.

Another burdensome regulation governs chassis—the metal support structures that trucks use to carry cargo. The ports of Los Angeles and Long Beach [recently enacted](#) new rules restricting which types of chassis can be used at which terminals. Truck drivers that want to pick up cargo, but have the wrong type of chassis, must go back to the port's "chassis pool" to retrieve the correct chassis before proceeding. Depending on chassis availability (which are [in short supply](#)) and wait times, this regulation can increase transportation times, which in turn increases inflationary pressures.

Additionally, restrictive local city zoning laws hurt supply chains by limiting where cargo containers can legally be stored and how high they can be stacked. These regulations, [enacted purely for aesthetic reasons](#), have forced ships and trucks to sit longer while they wait to drop off their cargo. Thankfully, the ports of Long Beach and Los Angeles [recently provided regulatory relief](#) by allowing shippers to stack cargo four to five containers high, up from the prior limit of two. This zoning reform is set to expire in January, but it should be a permanent policy change.

While zoning reform at ports is a welcome improvement, even more container storage space is needed, especially as productivity issues persist and supply chain bottlenecks continue. The port of Hueneme in California recently provided [a good example of expanding storage capacity](#) by utilizing a pre-existing agreement with the Navy to offload incoming cargo containers at the local naval base. Other ports could seek similar agreements, or Congress could direct the Department of Defense to temporarily allow for the storage of cargo containers on their properties. Similarly, legislation recently [introduced](#) by Senator Mike Lee would alleviate congestion by identifying plots of federal land to temporarily store empty cargo containers, freeing up space at the ports.

Perhaps the costliest regulation affecting transportation and shipping today was established by Congress over 100 years ago. The Foreign Dredge Act of 1906 prevents foreign-made, owned, or operated boats from dredging in the United States, i.e. the process by which ports are built and expanded. As a result, the United States has access to [only 15 hopper dredges](#)—the most efficient dredging vessels available—11 of which are more than 20 years old. The Jones Act, established in 1920, similarly stipulates that dredging material can only be transported by American-made and owned ships operated by American citizens, increasing costs and limiting options for dredging.

These laws discourage the expansion of ports by making dredging unaffordable, [and they explain](#) why U.S. dredging activity has decreased over the last 50 years while costs per square cubic yard of sediment removed have steadily risen. The prohibitive cost of dredging is a key reason why the ports of Los Angeles and Long Beach are the [only ports currently large enough](#) to fit many of the vessels that transport goods to the United States. Expanding port capacity is especially important given that the volume of traffic at marine ports is [expected to double](#) by 2030.

Reforming or repealing these laws would remove barriers to new port creation and expansion and enable U.S. ports to meet growing demand. Senator Mike Lee introduced legislation earlier this year to [repeal the Jones Act](#), and he recently introduced a [suite of new bills](#) that would either repeal or reform the Foreign Dredge Act. These proposals would reverse unnecessary restrictions on port expansion by broadening the types of dredging vessels allowed on U.S. soil.

## IMPROVE TRANSPORTATION WORKER FLEXIBILITY

Once goods make their way through the ports, the next step is for them to be transported to storage facilities or to their final destinations. Here too, the United States is experiencing supply chain challenges, mainly due to a shortage in transportation workers.

In the transportation, warehousing, and utilities industry, the hires-per-job-opening ratio—a measure of how successful businesses are at filling vacant positions—was only 0.46 [in October](#), down from 0.74 in [October 2019](#). In other words, businesses in this sector can fill less than half of their open positions, and the labor shortages that existed before the pandemic have only gotten worse.

Without enough [truck drivers](#) or [rail workers](#) to pick up cargo from ports, shipping delays have been exacerbated. But this problem is not new. A [study from 2019](#) found that 36 percent of truck appointments went unfilled at the ports of Los Angeles and Long Beach, while data from [this October](#) suggest that the percentage has increased to nearly 50 percent. The increase in unfilled truck appointments is likely connected to below pre-pandemic truck transportation [employment levels](#). Truck drivers—like many other Americans—are participating in “[the great resignation](#),” even as trucking fleets [raise wages](#) and [offer incentives](#) to attract workers.

One way to encourage Americans to fill these open jobs is to reduce regulatory barriers to transportation employment. The [STOP the GRINCH Act](#), introduced by Senator Mike Lee, would temporarily lower the minimum age of truck drivers transporting cargo to and from ports from 21 to 18. It would also expedite the process for receiving Transportation Worker Identification Credentials, a requirement for all transportation workers who interact with U.S. ports. The legislation would additionally increase flexibility for these workers by temporarily waiving limits on their hours of service.

Conversely, the Administration should by wary of [imposing new restrictive mandates](#) on transportation workers at a time when labor shortages are already straining our supply chains. The [American Trucking Association](#) warned that the COVID-19 vaccine mandate for businesses with 100 employees or more could be a huge blow to the industry, potentially prompting 37 percent of drivers to be fired or leave their jobs. A letter from over 100 members of the [International Foodservice Distributors Association](#) raised similar concerns, imploring the president to exempt truck drivers from the vaccine mandate and provide regulatory relief.

As long as labor shortages persist, supply chains will be strained. In the absence of labor market improvements, the United States could consider an increase in temporary visas for foreign-born transportation workers, much like the [emergency truck driver visa program](#) established this year in the United Kingdom.

## REDUCE TRANSPORTATION COSTS

As supply chain bottlenecks continue to disrupt commerce, transportation costs have skyrocketed. A mix of high consumer demand, labor shortages, and high gas prices are putting upward pressure on transportation costs. Furthermore, shortages of transportation equipment like chassis and rising global prices for essential inputs like semiconductor chips, steel, and autos are increasing transportation costs further. The latest data show that [freight rates](#) in November were 38 percent higher than in the prior year—the fourth consecutive monthly acceleration—and expenditures on freight increased 44 percent. These costs are undoubtedly pushing up consumer prices.

Transportation costs will likely remain elevated as long as there is a mismatch between demand and supply of consumer goods, increasing demand for freight shipping. However, several federal reforms would counteract the upward pressure on transportation costs by removing government-imposed taxes and restrictions on transportation. For instance, the administration could repeal tariffs on [steel](#), [aluminum](#), [chassis](#), and [semiconductor chips](#), which drive up costs and reduce the availability of goods that are essential to the U.S. transportation industry.

Tariffs on steel and aluminum were imposed in 2018 to protect domestic industry from foreign competition, but [evidence suggests](#) they led to price increases in the United States. Similarly, tariffs on semiconductor chips were enacted as a part of several rounds of tariffs levied on China by the prior Administration, and they are [contributing to current shortages](#). Finally, the International Trade Administration imposed [tariffs this year amounting to 250 percent](#) on the cost of intermodal chassis from China, drastically increasing the cost of new chassis while chassis shortages are already driving up domestic prices.

Additionally, high chassis prices could be alleviated and chassis shortages could be eased by tapping existing U.S. supply that is not currently used for shipping. The [STOP the GRINCH Act](#) would direct the Department of Defense (DOD) to identify chassis in the DOD's possession and loan them to trucking companies as long as it would not affect U.S. national security.

Finally, repealing the Jones Act, or waiving it temporarily, would help to reduce the cost of shipping, in addition to reducing the cost of port expansions. Currently, the Jones Act prevents any foreign built, owned, operated, or crewed vessel from sailing between U.S. ports. Not only does this legislation make sea-based shipping unnecessarily expensive—daily operating costs for U.S. owned vessels are [2.7 times greater](#) than foreign-owned vessels—but it also reduces shipping options during the supply chain crisis, increasing stress on trucks and trains. Furthermore, waiving the Jones Act could help to [lower gas prices](#) by allowing U.S. producers on the Gulf of Mexico or in Alaska to [more easily transport oil](#) to other parts of the country.

## **CONCLUSION**

American families are facing new hardships this holiday season, prompted by sustained inflation and ill-functioning supply chains. Ports are unable to process unprecedented surges of cargo, the transportation industry cannot find enough workers, and costly regulations and equipment shortages are delaying shipping along all stages of the supply chain. Removing locally- and federally-imposed barriers to efficient supply chains would help to decrease prices for American families and increase supply chain resiliency while preserving the benefits of international trade.

**Jackie Benson**  
**Senior Economist**



## ENDNOTES

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1. Author's calculations, found by dividing the number of empty export containers by the total number of export containers, <https://www.portoflosangeles.org/business/statistics/container-statistics>.