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The numbers behind the Jones Act

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Blue Alpha Capital's John McCown writes for Splash today on the always contentious issue of the Jones Act in the US. He suggests the Cato Institute ought to invest in some calculators.

In my four decades of experience in the maritime sector, I've done my best to stay true to a number of core principles. One is that free trade is good and that tariffs are bad. Another is complete and total support for the Jones Act. I don't see those two strongly held views as being in conflict as they relate to completely different areas. One is economic; the other is national security.

When I first became aware of Cato Institute's writings on the Jones Act four years ago, I assumed a think tank with their well-regarded reputation and one that I had actually contributed to would engage in unbiased academic research. I responded to early inaccuracies in their writings by sharing directly with them specific numbers from my experience. While I recognised that Cato was philosophically against the Jones Act and would be at any additional economic cost, I thought the hyperbole and cherry-picking evident in their work was a function of getting up to speed on a new area for them. Over the course of many months and dozens of email exchanges, it became apparent I was being naïve. Academic research had nothing to do with what Cato was marketing regarding the Jones Act. Hyperbole and cherry-picking was and is their stock-in-trade in a relentless campaign against the Jones Act. I've written extensively about the inaccuracies in their published work since then. I'm not going to get into the Jones Act or Cato's consistent hyperbole and spinning and what is driving their efforts here, but all those and more are detailed in numerous articles that can be accessed on my Medium page at john-d-mccown.medium.com.

Today I'm not going to write about the Jones Act itself. If you are in the maritime industry, views on that subject are fairly ingrained and unlikely to change. For those who are against it based on any additional economic cost, something that I'll stipulate is the case, you'll get no quarrel from me other than I disagree as the moderate cost difference consistent with our laws and labor practices justify its national security aspects. But if you seek to justify your position by exaggerating and spinning out of whole cloth selected numbers that distort and imply cost differences that are off by ten times and more, you'll hear from me every time with facts that seek to inoculate such poppycock. So this article isn't about the Jones Act itself, but about Cato's so-called analysis related to it that crossed over the line from just hyperbole to analytical chicanery and mathematical impossibility. Cato Institute isn't just pouring salt as much as they are shovelling balderdash. And they know it when they do it, which makes it even more detestable.

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The first instance involved using someone else's report claiming that the Jones Act added 10 cents per gallon for gasoline moved from the Gulf Coast to New York harbour. The same report, however, had data that if analysed correctly showed that the net difference was no more than 2.38 cents per gallon. Cato then compounds an error overstating the per gallon cost by four times by applying that not to just the 7.3% of gallons that move by Jones Act tanker from the Gulf Coast to New York harbor, but to all gasoline consumed on the east coast. That is despite the fact that the large majority of gasoline moving from the Gulf Coast to the east coast goes by extremely efficient pipelines that move gasoline at a much lower cost than any ship could and as such have nothing to do with the Jones Act.

By layering two geometric errors on top of each other, Cato overstated the impact of the Jones Act on gasoline costs on the east coast by more than 50 times. Cato claims that the Jones Act adds $4.3bn to the annual cost of gasoline consumed on the east coast. When the accurate net difference per gallon cost is used and it is just applied to the gallons moving by Jones Act tanker as it should be, the actual annual cost is $85m. Given what I've come to learn of their modus operandi, it's hard for me to believe that someone at Cato didn't recognise the $4.3bn claim was nonsense when it was published in a blog.

To the extent that the compound errors could have been made from faulty assumptions, they are certainly aware of those errors now, yet they have taken no steps to correct the errors or retract what they have published. No doubt that Cato rationalises that when it comes to the Jones Act, the end they seek justifies any means they can use to achieve it, including their own set of alternative facts built upon a foundation of bogus numbers.

The erroneous more than $4bn claim was the headline of Cato's July Jones Act Gazette, a monthly email that goes to thousands of policymakers it seeks to influence against the Jones Act. A key subset is hundreds of policymakers in Washington DC. In a recent podcast, the person at Cato exclusively involved in attacking the Jones Act for four years said that congressional staff members are busy with many different topics and know little or nothing about the Jones Act. He said it is important to educate these congressional staff members. With this ridiculous claim of $4.3bn, it's worth knowing that by 'educate' that term includes widely distributing inaccurate numbers that overstate the actual Jones Act impact on east coast gasoline costs by a factor of 50 times.

On the heels of the analytical chicanery above, within two weeks Cato also published charts that it viewed as supporting another argument against the Jones Act. While they anecdotally did in a narrow cherry-picking sort of way, Cato lost sight of the fact that the charts it created couldn't co-exist as they represented a mathematical impossibility. Presumably, they became so involved in their numerical legerdemain that they missed the forest for the trees.

The charts created by Cato were on its favourite Jones Act subtopic of LNG.

In a July blog, the charts show the 2021 imports to Dominican Republic from Trinidad represented 3.01% of value and 29.61% of tons, with most of the balance coming from the US (96.39% of value and 65.13% of tons). If you go through the maths, that can only be possible if the price of LNG from the US is 14.56 times more than the price of LNG from Trinidad (the full arithmetic equation is (29.6/3.01 X 96.39/65.13)).

The initial point I'd make is that most people would assume the charts Cato prepared are accurate, as Cato is supposedly an unbiased think tank that goes where academic research takes it. If that is the case and the key conclusion from the charts is focused on, Cato should be shouting from the mountain top that both Dominican Republic and Puerto Rico should buy all the LNG they can from Trinidad as the same dollar amount buys 14.56 more tons of LNG. They may want to even consider submitting these charts to the Nobel committee in Sweden as they have discovered a unique pricing difference in a commodity that would be of keen interest to economists around the world.

The second point I'd make is that what the charts say is nonsensical and impossible mathematically. Whether due to staggering incompetence or wilful duplicity or some combination of both matters less than the fact that it underscores that what Cato pumps out related to the Jones Act has nothing to do with what one should expect from a credible think tank. They are marketing talking points that include errors that are made obvious by a simple math exercise. What we seem to have here is a basic lack of appreciation for maths and the fundamental facts related to the topic of the Jones Act.

Both related to this latest error and the earlier material error, I've sent Cato emails detailing the mistakes and calling on them to make corrections or retract the publications containing the errors. In my emails to the key people in Cato's trade policy area, I've said I think that such action must be taken if Cato is to be true to its mission and principles. So far, no response to my emails and no correction or retraction by Cato on documents still on its website with significant and material known errors.