Jones Act numbers reveal the law's failure

By Colin Grabow

August 23, 2022

Colin Grabow, a research fellow at the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies, responds to criticism his organisation has faced for repeated attacks on the controversial Jones Act in the US.

For several years my colleagues at the Cato Institute and I have documented the many ways the Jones Act inflicts economic harm, degrades our environment, and weakens US national security. It is a law sorely in need of profound reform if not outright repeal, for the sake of both the country and the enfeebled maritime sector the law is meant to promote. Unsurprisingly, our efforts here have attracted considerable criticism, as typically happens when one confronts protectionist rent-seeking.

Among our critics is John McCown, a former CEO of Jones Act tug-barge operator Trailer Bridge currently listed as a principal at Castalia Partners, an offshore investment firm whose interests intersect with the Jones Act through the provision of US-flag wind turbine installation vessels.
In his latest broadside, McCown takes issue with recent Cato Institute blog posts highlighting some of the Jones Act's costs. The first of these noted, among other items, a report from JP Morgan stating that allowing internationally-flagged ships to transport fuel within the United States would save east coast drivers about 10 cents per gallon at the pump. The blog post simply took this figure from the well-respected firm a step further and applied it towards the annual amount of PADD 1 (east coast) gasoline consumption to produce an aggregate savings.

The cost of a Jones Act containership is five times that of one constructed abroad

McCown's column claims a much more modest Jones Act impact on east coast gasoline prices derived by multiplying Jones Act and foreign tanker cost differences by the amount of gasoline currently moved by Jones Act vessels. But this approach suffers from conspicuous defects. It ignores, for example, east coast refineries' impaired ability to efficiently source domestic crude via tanker as a gasoline cost driver. It also does not account for the importation of gasoline from more distant foreign ports rather than the US Gulf Coast to avoid high Jones Act shipping rates. Just this month, meanwhile, *Reuters* reported that gasoline was being routed through the Bahamas due to the cost and limited availability of Jones Act tankers.

None of these Jones Act distortions and resulting costs appear evident in McCown's analysis.

McCown also alleges flaws in another blog post examining the Jones Act's impact on Puerto Rico's purchase of energy supplies. The piece looked at three different types of fuel—LNG, propane, and fuel oil—and compared Puerto Rico's sourcing of these fuels to the neighbouring Dominican Republic. No matter the fuel or data source, the numbers all told the same story: the Dominican Republic obtained a vastly greater percentage from the United States than did Puerto Rico, which is part of the United States and thus subject to the Jones Act.

It's just one of the law's many strange and costly outcomes.

While McCown characterises the data presented as "nonsensical and impossible mathematically" the numbers are all taken from a variety of respected sources to provide the fullest and most comprehensive picture possible. None were altered or manipulated by anyone at Cato. Furthermore, only days after publication the blog post was updated with additional information regarding our methodological approach in the interest of maximum transparency. Readers are invited to study the piece and decide for themselves about the rigour of the numbers and argument presented.

Despite our differences with McCown, however, we share his stated concern with numbers and fundamental facts related to the Jones Act. Indeed, they tell a disturbing story.

From 1980 to the present day, for example, the number of Jones Act ships has decreased from 257 to just 93—a stunning 64% decline. US shipyards are so uncompetitive that a 2019 Congressional Research Service report placed the cost of a Jones Act containership at five times that of one constructed abroad (a number that helps explain the paltry demand for US-built, oceangoing merchant ships, with an average of just three delivered per year since 2000). A 2017 government report, meanwhile, found a deficit of at least 1,800 mariners to concurrently operate the US commercial fleet and conduct a sustained sealift operation.

These are the real and most relevant numbers behind the Jones Act.

Whether measured in the numbers of ships operating, ships built, or mariners to crew those ships the law simply isn't working. Even McCown has previously observed Jones Act-induced dysfunction, noting the use of old ships in the domestic shipping market due to high US shipbuilding costs. The law may be doing yeoman's work enriching a small number of companies at the expense of average Americans, but it has sadly and demonstrably failed to foster a vibrant and competitive US maritime industry.

This has consequences that go beyond economics. The expense of Jones Act shipping and the fleet's lack of appropriate vessel types, for example, has—despite domestic abundance—led to the importation of Russian LNG in New England and Puerto Rico and Russian oil to mid-Atlantic refineries. The law has literally helped fill the coffers of Vladimir Putin. All this in addition to the Jones Act contributing to the domestic fleet's diminishment and thwarting its modernisation via grossly uncompetitive commercial shipbuilding.

It's therefore puzzling to read an attempted justification of this law on national security grounds. More accurately, national security considerations demand its complete reassessment.

The Jones Act's glaring failure, compounded by its infringement on Americans' economic liberty and harm to the country's prosperity, helps explain why my colleagues and I at the Cato Institute have taken such a deep interest in the topic. We encourage others to read our work, subscribe to

the Jones Act Gazette newsletter, and learn more about why it is long past time for a complete overhaul, if not scrapping, of this outdated protectionist law.

Colin Grabow is a research fellow at the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies where his research focuses on domestic forms of trade protectionism such as the Jones Act and the U.S. sugar program.His writings have been published in a number of outlets, including USA Today, The Hill, National Review, and the Wall Street Journal.