Five myths about the Jones Act

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By Joshua Mason and Jonathan Helton
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Letter from the President

Dear friend,

The Jones Act has been with us for more than 100 years. In that time, the world has changed and changed again. Yet, the 1920 federal maritime law remains stuck in the past, a relic of the economic and military concerns of a different era. The fact is, if you want to transport goods from one U.S. port to another, the Jones Act says you must use ships that are U.S. flagged and built and mostly owned and crewed by Americans.

Over the last century, a series of myths has grown up to justify the Jones Act’s continued existence. As America’s maritime industry has withered and contracted, the myths have flourished, carefully tended by those who would have us believe that the law bears no blame for the decline of America’s merchant marine.

Now, however, we live in an age of myth-busting. Research and data have shown us how flimsy the rationales for the Jones Act really are. Is the Jones Act necessary for our national security, to protect jobs or to help our economy? No. As shown in this report, “Five myths about the Jones Act” – the Jones Act has actually undermined our national security, cost maritime jobs and become an economic burden.

One myth not contained in these pages, but which qualifies as a “sixth” Jones Act myth, is that we must be either totally for the Jones Act or totally against it. In truth, there are ways to bring the Jones Act into the modern era without repealing it.

One option is to let Jones Act carriers use ships built overseas, since U.S.-built ships typically cost four to five times more. As in the case of Guam, which already has such an exemption, the result would be more ships in service, more maritime jobs and lower consumer prices.

Another option is to exempt America’s noncontiguous states and territories from the law completely, as is the case with the U.S. Virgin Islands. Another is to expedite the waiver process when no Jones Act-compliant vessels are available to meet a legitimate need, as in the case of large LNG transport vessels.

The point is that modifying the Jones Act does not need to be an all-or-nothing proposition. We do, however, have to stop clinging to the old myths that have propped up the act for so long. Only then can we work together for a more prosperous and stronger America. Only then can we update the Jones Act for the 21st century.

Mahalo and aloha,

Keliʻi Akina, Ph.D.
President and CEO
Grassroot Institute of Hawaii

Introduction

The Jones Act is a federal maritime law that restricts the transport of merchandise between U.S. ports to only ships that are U.S. flagged and built and mostly owned and crewed by Americans.

Its alleged purpose is to protect national security and the U.S. shipbuilding industry, but evidence shows that the law – Section 27 of the 1920 Merchant Marine Act – has failed in its mission. Nevertheless, powerful groups with a vested interest in the law continue to cite dubious data and long-discredited arguments to dismiss any calls for repeal or reform.

Here are five of the most common arguments used by Jones Act supporters, along with our explanations as to why they are myths.
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Myth 1: The Jones Act protects national security

Perhaps the most common argument in defense of the Jones Act is that it ensures the U.S. will have adequate merchant marine capability in times of war. However, the U.S. Maritime Administration estimated in 2017 that the U.S. would be 1,839 mariners short for needed operations and commercial activities during a wartime scenario.

In addition, none of the 60 ships in MARAD’s Maritime Security Program are part of the Jones Act fleet, since none were built in the U.S.

Meanwhile, America’s capability to transport certain commodities that could be useful during wartime has diminished.

For example, despite the U.S. being a major exporter of liquefied natural gas, some states in the New England area recently had to import the fuel from Russia, since there are no Jones Act ships that can carry LNG from exporting states such as Louisiana to other states such as Massachusetts. Puerto Rico also imports LNG from Russia.

So, despite the myth that the Jones Act protects America’s national security, the reality is that it puts America’s national security at risk.
Five myths about the Jones Act

Myth 2: The Jones Act contributes to economic growth

The American Maritime Partnership — a powerful lobby group representing Jones Act carriers, shipbuilders and unions — has claimed that the Jones Act contributes $150 billion to the U.S. economy. This claim is based on a private study by PricewaterhouseCoopers for the Transportation Institute, not available for review by the public.

In contrast, Jeff Pagel, Russ Kashian and Ike Brannon found that between 2006 and 2017, the Jones Act cost the U.S. economy $11.1 billion. The Organisation for Economic Cooperation and Development published an analysis in 2019 that estimated the law’s repeal would increase U.S. economic output in the long term by up to $135 billion a year.

Even the PricewaterhouseCoopers study doesn’t say what AMP says it says. According to a leaked excerpt of the study, the “total impact” of the Jones Act on U.S. gross domestic product in 2016 was $72.4 billion — less than half AMP’s claim.

In either case, the reality is that the Jones Act is a drag on U.S. economic growth.
Myth 3: The Jones Act protects American jobs

Jones Act supporters frequently say the law is responsible for about 650,000 U.S. jobs. Again, they point to the private PricewaterhouseCoopers study, which estimates that about 95,470 U.S. jobs are “directly attributable to the Jones Act shipping industry.”

The 650,000 estimate is the result of adding 552,750 “indirect or induced” jobs and rounding up, conflating all “indirect and induced jobs in other sectors of the economy” with jobs directly related to the Jones Act. Without access to the full study, it is impossible for anyone to review how any of these numbers were calculated.

As for verifiable figures, we know that 300 U.S. shipyards closed between 1983 and 2013, with only four shipyards remaining as of NOVEMBER 2021 that build large oceangoing ships for the commercial market. Of those, only one is working on large vessels for the Jones Act market – two to be precise, and they are behind schedule. This belies the comments by the federal government’s new secretary of transportation, Pete Buttigieg, that, “The Jones Act ensures that we don’t lose our domestic ship building capability.”

Ironically, three of those four shipyards are not even American owned. The Philly Shipyard in Philadelphia is owned by Aker Philadelphia Shipyard, a subsidiary of Norway’s Aker ASA. The VT Halter shipyard in Pascagoula, Mississippi, is owned by ST Engineering, the largest shareholder of which is the government of Singapore. And Keppel AmFELS, located in Brownsville, Texas, is a subsidiary of the Singapore-based Keppel Corp. Additionally, many of the Philly Shipyard ships are designed in South Korea, while VT Halter has worked with a shipyard in Croatia to provide its ship designs.

The fourth shipyard, American-owned General Dynamics NASSCO, based in San Diego, reports on its website that
for its commercial work, it “is partnered with Daewoo Ship Engineering Co. to provide its customers with state-of-the-art ship design and shipbuilding technologies.”

As the output of these four shipyards has plunged, so has shipbuilding employment – by nearly in half, from 180,000 in 1980 to 94,000 in 2018. The number of Jones Act ships has dropped from 193 in 2000 to 96 as of February 2021. With a generous estimate of two 25-member crews for each vessel, that’s a loss of 4,800 seafaring jobs.

Clearly, it’s a myth that the Jones Act protects or even helps create American jobs.

Just to be clear, dockworkers, stevedores, truckers and other “indirect and induced” jobs do not owe their jobs to the Jones Act. Maritime cargo transport would exist with or without the Jones Act, which serves only to limit competition. If more foreign shipping was allowed in, there would be more maritime-related workers needed.

Moreover, if Jones Act supporters really want to pad their numbers with “indirect” jobs, they should be consistent and account for employment that has disappeared because of the high cost of U.S. shipping, such as, sugar plantation jobs in Hawaii or pulp mill jobs in Alaska.

Myth 4: The Jones Act keeps foreign ships out of America’s inland waterways

U.S. Rep. Brian Babin (R-Texas), who sits on the House Committee on Transportation and Infrastructure, claimed on the House floor in 2019 that without the Jones Act, Chinese-built and operated vessels could travel up and down the rivers of “the very heartland of the United States of America.” This concern has been echoed by other Jones Act supporters.

However, there already are foreign-owned ships transporting goods along inland waterways such as the Mississippi and Delaware rivers. The Jones Act doesn’t prevent foreign-built and operated vessels from using these routes. As long as these ships are carrying merchandise between one U.S. port and one foreign port, they are free to operate in U.S. waters.

Babin’s presentation also included an image of a giant Chinese containership Photoshopped to look like it’s traveling along the Mississippi River.

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Myth 5: The Jones Act provides benefits without adding to consumer prices

Jones Act supporters want to have it both ways when it comes to the federal government protecting them from competition.

On the one hand, they say that their government-sanctioned market dominance protects national security, contributes to economic growth and provides more than a half-million jobs, directly and indirectly. On the other hand, they say all these alleged benefits come at virtually no cost.

The truth is, none of these claims are true. Earlier chapters of this report dispensed with the claims about benefits. Here we dispel the myth that the Jones Act provides benefits without any costs.

In 2020, for example, the American Maritime Partnership alleged the law has no or only a negligible effect on prices in Hawaii. Its source was a report that compared online prices at Walmart, Target, Home Depot and Costco stores in Hawaii and Los Angeles. It was similar to an AMP study concerning Puerto Rico that compared Walmart prices in San Juan versus Jacksonville, Florida. But online prices usually are not the same as store shelf prices.

For example, during visits to Walmart stores in Honolulu and LA, Grassroot Institute of Hawaii researchers found that an 18-ounce box of Cheerios listed online as $3.64 in both locations was $4.26 in Honolulu and $2.94 in LA. One-gallon bottles of Wesson Canola Oil were $6.98 each online and in the LA store but $9.64 in Hawaii. Looking at all the grocery products on the AMP’s list, the Honolulu Walmart prices were on average 14% higher than in LA.

Studies more methodologically rigorous have shown the Jones Act definitely adds to the cost of living in America’s noncontiguous states and territories. They include a 2019 University of Hawaii study that found at least a 3.1% differential, a 2019 study showing the Jones Act costs Puerto Rico’s economy $1.5 billion annually and 13,250 jobs, and a 2020 study showing it costs Hawaii’s economy about $1.2 billion annually and 9,100 jobs.

In other words, it is a myth that the Jones Act provides benefits without adding to consumer prices.
Conclusion

Claims abound about how wonderful Section 27 of the federal Merchant Marine Act, aka the Jones Act, is. But these are just myths.

The goals of the law might have been well-intended, but the law itself has failed in its mission.

By restricting competition to only U.S. companies that must use U.S.-built ships that cost four to five times as much as on the international market, the Jones Act has actually endangered America’s national security, led to the decline of America’s shipyards and maritime labor force, and raised costs for businesses and consumers nationwide.

If Jones Act supporters really want to help their cause, they should embrace proposals that could help them transition financially to an environment of open competition, and stop relying on myths to support a failed and costly law.

Endnotes

3 The article repeats two of the myths in its introductory paragraph: “Democrats and Republicans in Congress strongly favour the Jones Act, which protects merchant marine jobs and ensures that the US retains access to maritime capabilities in the event of military operations or a national emergency, according to speakers at a European Maritime Law Organisation webinar.”
8 Ibid.
9 “The Jones Act.”
12 “Local Content Requirements and their Economic Effect on Shipbuilding: A Quantitative Assessment,” OECD Science, Technology and Industry Policy Papers, No. 69, April 2019, p. 21. Must click “PDF” to access,
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Endnotes

2 Janet Porter, “Divided US united in bipartisan support for Jones Act,” Lloyd’s List, March 19, 2021. The article repeats two of the myths in its introductory paragraph: “Democrats and Republicans in Congress strongly favour the Jones Act, which protects merchant marine jobs and ensures that the US retains access to maritime capabilities in the event of military operations or a national emergency, according to speakers at a European Maritime Law Organisation webinar.”
7 Ibid.
8 “The Jones Act.”
13 “The Jones Act.”
15 Ibid., p. 236.
Number derived by subtracting 97 ships from 193 to get 96, multiplying it by two crews of 25 members each for 4,800. Crew jobs per vessel are “a generous average” estimated by Rob Quartel, “Three Myths About the Jones Act,” from the book “The Case Against the Jones Act,” Cato Institute, 2020, p. 20. See also: Colin Grabow, Inu Manak, and Daniel Ikenson, “The Jones Act: A Burden America Can No Longer Bear,” Cato Institute Policy Analysis No. 845, June 28, 2018. These authors estimate the crew per ship at between 13 and 22.


Ibid.


“Puerto Rico Economy,” American Maritime Partnership.


“Quantifying the cost of the Jones Act to Hawaii,” Grassroot Institute of Hawaii and John Dunham & Associates, July 2020, p. 3.

John Frittelli, “Shipping Under the Jones Act: Legislative and Regulatory Background,” Congressional Research Service, Nov. 21, 2019, p. 4.

Colin Grabow, “Could Compensation Smooth the Path for Jones Act Reform?” Cato Institute, March 29, 2021. For example, Grabow suggests that Jones Act carriers could be offered tax credits or write-offs to compensate for the values of their U.S.-built vessels that would plummet after Jones Act reform, and U.S. shipbuilders could be offered lucrative military contracts to compensate for the lack of Jones Act work.