nuclear watch new mexico

DOE's Economic Claims in New Mexico are Unsubstantiated; LANL Should Pay Gross Receipts Taxes

The outlook for New Mexico is grim. Economic and social disparity has dramatically increased in recent years. If current trends continue these disparities will likely grow even wider. According to recent demographic statistics New Mexico has the highest national average of residents living in poverty, second highest percentage of citizens who lack health insurance, second highest rate of violent deaths among teens, third highest rate of violent crimes and reported sexual assaults, and sixth highest rate of teen pregnancies. Sadly, New Mexico is at or near the bottom when it comes to teacher salaries and the socioeconomic conditions for raising children well.

Over the past four decades important economic measurements in New Mexico have also fallen further behind in comparison to the rest of the nation. According to the U.S. Census Bureau data, **New Mexico was 37th in per capita income in 1959, 41st in 1969, 42nd in 1979, and 41st in 1989. For the last census in 2000, New Mexico was 44th in per capita income.** Being one of the largest players in New Mexico's economic landscape, the Department of Energy (DOE) should play a key role in steering New Mexico away from poverty and onto the road of prosperity. In order to do that, however, the DOE must first be honest about its economic benefits to New Mexico. **For years the DOE has over-inflated its economic impact, using unsubstantiated economic data and modeling methods that were simply out of date.** It is time now for the DOE to come clean.

Nuclear Watch of New Mexico (NWNM) recently released an independent analysis of the DOE's economic impact on New Mexico.[1] The analysis' author, Lloyd J. Dumas (Professor of Economics at UT Dallas), found that **DOE seriously exaggerates its economic benefit to New Mexico by as much as two and a half times.** For fiscal year (FY) 1998, DOE asserted that its state-wide economic impact was $10.24 billion.[2] That claim was segregated into three parts: the impacts on personal income, personal employment, and the aggregate impact on the State.

How DOE Claimed its Impact:

Personal Income: In FY98, while using an unsubstantiated multiplier of 2.39, DOE claimed that it created $2.89 billion in personal income throughout the State. This would mean that for every dollar DOE spent on wages, an additional $1.39 was earned by non-DOE wage earners.

Jobs Created: In FY98, while using an unsubstantiated multiplier of 3.58, DOE took credit for the creation of 72,453 jobs. This would mean that for every person directly employed by DOE, 2.58 additional jobs were created in the economy.

Aggregate Impact: DOE made the claim that for FY98 it was responsible for more than $10 billion in economic activity in New Mexico. It claimed an unsubstantiated multiplier of 3.39, which would mean that, when all is said and done, a dollar spent by DOE generated an additional $2.39 in New Mexico.

In his analysis, Professor Dumas makes a conservative adjustment of DOE's claims. He lowers the aggregate economic multiplier to fall between 1.5 - 2.0 (the data suggest that even this is too generous). Such an adjustment reduces the DOE's economic claims to a more believable $4 to $6 billion annual impact. Jobs created drop from 72,453 to a more realistic range of 27,289 to 40,418. Personal income falls from $2.89 billion to a more reasonable $1.63 to $2.42 billion annually.

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Professor Dumas made these adjustments to conform with eight different independent studies by researchers at, for example, the University of Alaska, the State of Nevada, and the internationally recognized economic analysis firm KPMG. These studies guided Professor Dumas in establishing boundaries for reasonable multiplier levels in both the private and government sectors. For the private sector all of the studies agreed that the appropriate multipliers are in the range of 1.5 to 2.0. Further, Dumas found that there are strong indications that military-related government spending (such as at the nuclear weapons laboratories) creates a multiplier of less than 1.5.

Given that the DOE purchases the majority of its supplies from out-of-state venders, a large chunk of the money received by the national laboratories never actually makes its way into the New Mexico economy. Therefore, it would be highly inaccurate to take the near-total DOE budget for its New Mexico facilities, apply multipliers, and then conclude that is how much money is being generated in New Mexico (as DOE appears to have done in its economic modeling). To account for this fact, while at the same time giving DOE the benefit of the doubt by applying the private sector range of 1.5 to 2.0, Dumas adjusted downward the DOE's annual economic impact to the $4 to $6 billion range.

A $4 to $6 billion annual impact is still a very significant contribution to the New Mexico economy. However, the policy maker and policy analyst must be careful when considering this figure for several reasons. First, it represents a best case scenario, based on the highest probable impact for the private sector, not for defense-related government spending. Second, **nearly half of the DOE activities in New Mexico are the tax-exempt activities at the Los Alamos National Laboratory** (LANL). The Lab's direct activities are not taxed due to the nonprofit status of the University of California (LANL's manager), which in turn creates an unnecessary burden on the region.

Recently, LANL officials have propagated the myth that the imposition of the Gross Receipts Tax (GRT) would harm the economy of northern New Mexico. This couldn't be further from the truth, and once again demonstrates that LANL is an uncooperative citizen of New Mexico. Contrary to statements made in the media by LANL and UC representatives, the levying of GRT on the lab would not cause the layoff of 400 workers. The cost of GRT would not come out of LANL's pocket, or its employees' pockets. Neither would GRT impact the University of California. In fact, the New Mexico tax code specifically states that GRT is to be included as part of the final cost of doing business. That means that UC must include GRT in its bill to the DOE. This is how it works at the Sandia National Laboratory. **We did not see mass layoffs and a related loss of economic activity in the Albuquerque Metro Region during the mid-1980s when GRT was imposed on Sandia following an U.S. Supreme Court ruling.** Instead, it provided a much needed infusion of $275 million into the State treasury that benefited New Mexicans at large.

If LANL paid GRT (and the estimated $70 million annually is a drop in the bucket for DOE) we would likely see a boost in the economic vitality of northern New Mexico. We would see better roads, better schools, and better funded social well-being programs. In fact, **if LANL were to pay GRT, New Mexico might be able to reduce or eliminate the food and medical tax, one of the most regressive state taxes in the nation that particularly punishes the poor.** Taxing LANL would be the right thing to do in the State that has the most residents living in poverty.

Colin King, October 2003

[1] *Economic Multipliers and the Economic Impact of DOE Spending in New Mexico*, Lloyd J. Dumas, Professor of Economics and Political Economy at the University of Texas at Dallas, http://www.nukewatch.org/facts/nwd/DumasReport033103.pdf.

[2] T*he Economic Impact of the Department of Energy on the State of New Mexico Fiscal Year 1998*, Lansford, Adcock, Ben-David, and Temple, DOE Albuquerque Operations Office, August 5, 1999.