nuclear watch new mexico

DOE's Economic Claims Are Seriously Exaggerated

- According to the U.S. Census Bureau, New Mexico was the 37th state in per capita income in 1959, 41st in 1969, 42nd in 1979, 41st in 1989 and 44th in 1999. This overall decline and numerous socioeconomic indicators that consistently place New Mexico near or at the bottom call into question the broad economic directions that this State is taking.

- Governor Richardson and Senator Domenici have suggested that a partnership between the State and the Department of Energy (DOE's) two national laboratories in New Mexico could help spur economic development. Would this really be true? Are the economic benefits of the massive DOE presence in this State[1] as great as have been claimed year after year? An analysis by Nuclear Watch of New Mexico clearly indicates no.

- In the last economic study[2] that DOE performed in 1999 it claimed that its aggregate economic impact on New Mexico in FY98 was $10.24 billion. This figure includes direct funding for the Los Alamos and Sandia National Laboratories, the Waste Isolation Pilot Plant, and a couple of small environmental remediation sites (the Gnome and Gas Buggy nuclear test sites), plus an assumed economic multiplier adjustment of 3.39.

- DOE's economic multiplier claims that for every dollar DOE spent in New Mexico, that same dollar generated an additional $2.39 in the New Mexican economy (for example, in gas stations, grocery stores, etc.). In the intervening years similar claims, unsupported by updated studies, have been repeatedly made by DOE when the Department's new annual budget is released every Spring.

- For 1998 DOE also claimed that it created $2.89 billion in personal income, including the income earned by individuals directly employed by the DOE. The underlying multiplier for this claim is 2.39, indicating that for every dollar DOE spent in salaries, an additional $1.39 was generated for other wage earners.

- For 1998 DOE claimed that it created 72,453 jobs, including those positions directly employed at the DOE facilities (approximately 20,000 people). The underlying multiplier for this claim is 3.58, meaning that for every DOE job an additional 2.58 jobs were created throughout the entire State's economy.

- Nuclear Watch's analysis[3]of DOE's FY98 economic claims indicate that DOE has grossly overstated its economic impact. Our conservative estimate puts all of the above DOE multipliers in the range of 1.5 to 2.0. This would readjust DOE's aggregate economic impact down to the $4 to $6 billion range, or as much as $6 billion lower than DOE's claim. Personal income would drop from DOE's claimed $2.89 billion to a more realistic $1.63 to $2.42 billion. Employment would drop from DOE's claimed 72,453 down to a more realistic 27,289 to 40,418 jobs.

- These adjustments are based on independent analyses conducted by economists at universities, government agencies and private institutions. These include the State of Nevada, University of Oklahoma, and KPMG Peat Marwick (one of the most respected regional planning firms) who analyzed the Intel Plant in Rio Rancho, New Mexico. These independent analyses all came to the common conclusion that businesses in the private sector and nonmilitary government programs yield economic multipliers in the range of 1.5 to 2.0. An earlier study demonstrated that federal defense facilities, such as national labs or military bases, produced a yet lower economic multiplier in the 1.25 to 1.5 range.[4]

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• The range of 1.5 to 2.0 for the private sector and nonmilitary government activities is used by Economics Professor Lloyd Dumas and Colin King of Nuclear Watch for these readjustments. Therefore the readjustments made are actually a best-case scenario for DOE given that a degree of conservativeness is built in by not using the lower rate for federal military facilities.

• As further illustration of the improbability of DOE's claims, a benchmark called the Hachman Index (used to measure supply and demand) assigns an aggregate figure of 0.44 for New Mexico. To generalize, this means that for every dollar spent from all sources in New Mexico, $0.56 ultimately leaves the State because New Mexico lacks the production capability of many of the things that New Mexicans consume, such as manufactured goods (computers, cars, etc.) and food and medical supplies. In its calculation of claimed economic multiplier benefits DOE determined that 90% of its money stayed in the State (which is extremely unlikely given the Index) and that that money went on to produce an overall economic multiplier effect of 3.39.

• Further, the great economic benefit of the DOE presence would be made circumstantially evident by a history of large expenditures for in-State procurement of materials and supplies and numerous business spinoffs from DOE facilities. Neither of these has been historically the case, indicating that DOE has not been a robust platform for State economic development.

• Finally, DOE does not adjust its claimed economic benefits to compensate for any fiscal burdens on the State caused by the DOE presence. First of all, it should be noted that LANL does not pay gross receipts taxes to the State because the University of California (its manager) is an "educational, nonprofit" institution (on the other hand, Sandia Labs does since it is managed by the private corporation Lockheed Martin). If LANL paid its estimated $60 million in gross receipts taxes it would go to the general State Treasury, which in turn funds the public education system, highways, etc. Thus, it can be argued that the State, in effect, subsidizes LANL. A more direct example of a financial burden is that the New Mexico Environment Department's Hazardous Waste Bureau spent nearly $900,000 in attempting to regulate LANL in 2002 alone, while at the same time LANL paid only $37,000 in permitting fees.

• Future economic analyses by Nuke Watch intend to calculate and capture all possible burdens on the State in order to arrive at an accurate picture of the net economic benefits of the DOE presence in New Mexico. Other factors that need to be determined are what proportion of DOE money is actually retained in New Mexico, the dollar amounts of DOE in-State procurement and the gross product of business spinoffs from DOE facilities. However, one thing is already clear, and that is that DOE's exaggerated economic claims are simply not correct. State leaders, especially the governor, should insist on getting an accurate picture of potential economic benefits before embarking New Mexicans onto economic paths that will likely not deliver what they claim.

1 The total DOE budget in New Mexico is just under the State government's entire budget of $3.8 billion. With the addition of an estimated $600 million for "Work For Others" (principally the Department of Defense) the cumulative budget for DOE-owned facilities in New Mexico is greater than the State's budget.

2 *The 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.

3 *Economic Indicators and the Economic Impact of DOE Spending in New Mexico*, Lloyd J. Dumas, Professor of Economics and Political Economy at the University of Texas in Dallas, in collaboration with Colin King of Nuclear Watch of New Mexico, March 2003, http://www.nukewatch.org/facts/nwd/DumasReport033103.pdf

4 *Regional Impacts of Federal R&D by Funding Source and Performer Type*, Donald Hicks and Si-Gyoung Lee, Vol. 28.6, p. 623.

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