



Jerry Taylor/Cato at Forbes: "Nuclear power quite simply doesn't make economic sense."

I'm a fan of **Jerry Taylor**, an even-handed, level-headed guy working out of the *Cato Institute* who sometimes almost (but not quite) comes across as a radical envirofaascist. (My [earlier posts referencing him are here](#).)

Jerry's [Cato bio](#) says he "is among the most widely cited and influential critics of federal energy and environmental policy in the nation ... a frequent contributor to the *Wall Street Journal* and *National Review* and appears regularly on CNBC, NPR, Bloomberg Radio, the BBC, and Fox News. His op-eds on public policy have appeared in the pages of *The Washington Post*, *The New York Times*, *The Los Angeles Times* and most other major dailies.'

Jerry and his colleague **Peter Van Doren** have a new piece out at [Forbes.com](#) and Cato Institute on nuclear power; Jerry has kindly given me permission to cross-post it in its entirety here.

[Just added: Allow me to I note that **Taylor has really only scratched the surface of the problems relating to nuclear power**. For example, far from governments simply *shifting* the risks of nuclear power cost over-runs to ratepayers and taxpayers, **this incentive structure actually compounds financial risks**, as the contractors do not have to bear the amount of cost over-runs, and the utilities can put their hands into the pockets of others.

[Taylor also does not address the further subsidies provided in the form of Federal liability caps and by **"limited liability" state corporation laws that leave shareholders without ANY liability for damages that nuclear accidents may cause others - as has now materialized in Japan**. Just as we have seen in our financial sector, the result of these government interventions is **a loss of personal "skin in the game"**, a concomitant reduction in critical oversight, unleashed moral hazard, poor decision-making and then hand-wringing and blame-shifting when the "black swans" come home to roost.

[Nuclear crony capitalism is just the tip of the iceberg of the vast, rotten and still metastasizing crony-capitalist mess that limited liability corporation laws

have engendered: <http://mises.org/Community/blogs/tokyotom/archive/2011/03/31/does-state-created-corporations-mean-we-are-stuck-with-a-wonderfully-confused-39-capitalist-39-mess-of-more-statism.aspx>]

This is how the Taylor and Van Doren piece appears at Cato (emphasis added)

[Nuclear Power in the Dock](#)

by Jerry Taylor and Peter Van Doren

This article appeared on Forbes.com on April 5, 2011. [TT: [Here's the Forbes link.](#)]

The unfolding nuclear emergency in Japan has prompted a reconsideration of nuclear power here in the United States. **Surprisingly, the political faith in nuclear power appears to be relatively unshaken at the moment, with opinion leaders on both the left and right cautioning against overreaction and politicians in both parties swearing continued fealty to the federal campaign to jump-start new construction orders.**

This is unfortunate — not necessarily because nuclear power plants are a catastrophic meltdown waiting to happen — but **because nuclear power makes no sense from an economic perspective and the political campaign to ram these plants down the market's throat threatens catastrophic harm to both taxpayers and ratepayers.**

The fact that nuclear power can't come within light-years of passing a market test is painfully obvious to all who wish to see. Consider the feds are presently telling banks that if they loan money to a utility company to build a nuclear power plant and the loan subsequently goes bad, the U.S. Treasury (that is, *you*) will compensate the bank for up to 90% of its losses. And yet the banks *still* refuse to loan. For principled supporters of a free market, that should be information enough about the merits of this commercial enterprise.

There are all sorts of reasons why banks are saying "no" to nuclear. Two in particular, however, stand out.

First, nuclear energy is not even remotely competitive in power markets with gas-fired or coal-fired electricity now or in the foreseeable future. Even the more optimistic projections of new nuclear power plant costs — such as those forwarded by MIT — find that nuclear's production costs over the lifetime of a new facility are about 30% above those for coal or natural gas-fired generators. So while we can only speculate about new plant construction costs (we haven't tried building one for more than 30 years) and estimates vary a great deal, all parties agree on one thing: Nuclear is substantially more expensive than conventional alternatives at present.

That's particularly the case when one figures in the revolution in natural gas extraction, which has significantly lowered the cost of gas-fired power. Exelon CEO John Rowe recently told the press that natural gas would have to cost more than \$9 per million BTUs before nuclear power plants could compete — about double its current price and far north of the \$5.3 per million BTU price over the next 5 to 10 years that forecasters predict for the future. MIT's nuclear energy study, by comparison, projects a \$7 per million BTU natural gas price (which makes nuclear energy seem more competitive than it actually is), but of course, the MIT study was based on 2007 data that failed to fully reflect the revolutionary advances in hydraulic fracking.

It's worth noting, moreover, that **nuclear's hefty price tag would be even heftier if government subsidies were to fall by the wayside. One economist calculates that existing nuclear subsidies are equal to one-third or more of the value of the power produced. Tufts economist Gilbert Metcalf estimates that nuclear power plant operators face a *negative* 49% tax rate.** Hence, banks betting on nuclear power are also betting on the longevity of such breathtaking taxpayer largesse — a risky bet indeed.

Second, the risk of cost overruns and, thus, defaulted loans are higher than the politicians would have us believe. Most of the nuclear power plants built in this country have cost three times as much to build as utilities initially advertised at the onset of construction.

While the industry swears that this is a thing of the past, **new power plants being built in Finland and France by Teollisuuden Voima and Electricite de France, respectively — the only nuclear power plants being built right now in free-market energy economies — are already coming far above their advertised cost.** The Finnish plant — which was supposed to cost only 3 billion euros — is already 2.7 billion euros above cost and is four years behind schedule. The French plant fairing a bit better, only 1 billion euros over budget and two years behind schedule.

The fact that both of these projects deploy state-of-the-art reactors built by French nuclear giant Areva — arguably the most experienced nuclear power company in the world — speaks volumes. Accordingly, **both the Congressional Budget Office and the Government Accountability Office expect about 50% of any future U.S. loans to default.**

So why are utilities trying to build these things in the first place? Well, most aren't. Those few utilities that *are* interested in going ahead do business in states where construction costs are automatically plugged into the rate base. So in theory at least, risks would be transferred from the utility to the ratepayer with utilities at least guaranteed to break even. Even so, the increasing cost gap between nuclear and gas-fired power makes it unclear whether any of these generators will actually get built.

As **Peter Bradford**, a former member of the U.S. Nuclear Regulatory Commission and former chair of the New York and Maine utility regulatory commissions, puts it, "**In truth, the nuclear renaissance has always consisted of the number of plants that *government* was willing to build.**" Regardless, federal attempts to jump-start the industry — as Herculean as they have been — haven't come even close to closing the competitive gap with gas-fired generation. Events unfolding in Japan are unlikely to change that. And for that, at least, we can all be thankful.

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