

The Trillion Dollar Costs of A Nuclear Catastrophe

Enough to Bankrupt an Entire National Economy...

By [Washington's Blog](#)

Theme: [Environment](#), [Global Economy](#)

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Preface: I am not against all nuclear power, solely the [unsafe type we have today](#). Future designs – like thorium reactors (see [this](#) and [this](#)) – may be a different animal altogether.

AP has a good article (via the [Washington Post](#)) on nuclear power economics:

Nuclear power is a viable source for cheap energy only if it goes uninsured.

Governments that use nuclear energy are torn between the benefit of low-cost electricity and the risk of a nuclear catastrophe, which could total trillions of dollars and even bankrupt a country.

The bottom line is that it's a gamble: Governments are hoping to dodge a one-off disaster while they accumulate small gains over the long-term.

The cost of a worst-case nuclear accident at a plant in Germany, for example, has been estimated to total as much as €7.6 trillion (\$11 trillion), while the mandatory reactor insurance is only €2.5 billion.

“The €2.5 billion will be just enough to buy the stamps for the letters of condolence,” said Olav Hohmeyer, an economist at the University of Flensburg who is also a member of the German government’s environmental advisory body.

The situation in the U.S., Japan, China, France and other countries is similar.

“Around the globe, nuclear risks — be it damages to power plants or the liability risks resulting from radiation accidents — are covered by the state. The private insurance industry is barely liable,” said Torsten Jeworrek, a board member at Munich Re, one of the world’s biggest reinsurance companies.

In financial terms, nuclear incidents can be so devastating that the cost of full insurance would be so high as to make nuclear energy more expensive than fossil fuels.

Ultimately, the decision to keep insurance on nuclear plants to a minimum is a way of supporting the industry.

“Capping the insurance was a clear decision to provide a non-negligible subsidy to the technology,” Klaus Toepfer, a former German environment minister and longtime head of the United Nations Environment Programme (UNEP), said.

As I’ve previously [noted](#):

In 1982, the House Committee on Interior and Insular Affairs received a secret [report](#) received from the Nuclear Regulatory Commission called “Calculation of Reactor Accident Consequences 2”.

In that report and other reports by the NRC in the 1980s, it was [estimated](#) that there was a 50% chance of a nuclear meltdown within the next 20 years which would be so large that it would contaminate an area the size of the State of Pennsylvania, which would result in huge numbers of a fatalities, and which would cause damage in the hundreds of billions of dollars (in 1980s dollars).

Similarly, renowned physicist Michio Kaku [told](#) Democracy Now today:

The American people have not been given the full truth, because, for example, right north of New York City, roughly 30 miles north of where we are right now, we have the Indian Point nuclear power plant, and the Nuclear Regulatory Commission has now admitted that of all the reactors prone to earthquakes, the one right next to New York City is number one on that list. And the government itself, back in 1980, estimated that property damage would be on the order of about \$200 billion in case of an accident, in 1980 dollars [more than [\\$500 billion in today’s dollars](#)], at the Indian Point nuclear power station.

But AP notes that doesn’t include the real costs:

The cost of a nuclear meltdown at the Indian Point reactors some 24 miles north of New York City has been estimated at up to \$416 billion in a 2009 study. But that does not take into full account the impact on one of the world’s busiest metropolises.

“Indeed, a worst-case scenario could lead to the closure of New York City for years, as happened at Chernobyl, ... leading to almost unthinkable costs,” University of Pennsylvania’s Howard Kunreuther and Columbia University’s Geoffrey Heal said.

Japan’s economy was already on the ropes prior to Fukushima. America’s economy is already on the ropes, and yet a U.S. nuclear accident could be [a lot worse](#) than Japan

As I [wrote](#) on April 8th:

Whenever there is a disaster, those responsible claim it was “unforeseeable” so as to escape blame.

For example:

- It happened with [9/11](#)
- It happened with [the financial crisis](#)
- It happened with the BP oil spill (see [this](#), [this](#), [this](#), [this](#) and [this](#))
- It happened with the [Japanese nuclear accident](#)

The big boys [gamble with our lives and our livelihoods](#), because they make a killing by taking huge risks and cutting costs. And when things inevitably go South, they aren't held responsible (other than a slap on the wrist), and may even be bailed out by the government.

And as I [noted](#) the same day, nuclear accidents, oil spills and financial meltdowns all happen for the same reason ... the big boys cutting every possible corner in order to make more money:

[Nobel prize winning economist Joseph] Stiglitz [wrote](#) Wednesday:

The entire financial sector was rife with agency problems and externalities. Ratings agencies had incentives to give good ratings to the high-risk securities produced by the investment banks that were paying them. Mortgage originators bore no consequences for their irresponsibility, and even those who engaged in predatory lending or created and marketed securities that were designed to lose did so in ways that insulated them from civil and criminal prosecution.

This brings us to the next question: are there other "black swan" events waiting to happen? Unfortunately, some of the really big risks that we face today are most likely not even rare events. The good news is that such risks can be controlled at little or no cost. The bad news is that doing so faces strong political opposition - for there are people who profit from the status quo.

We have seen two of the big risks in recent years, but have done little to bring them under control. By some accounts, how the last crisis was managed may have increased the risk of a future financial meltdown.

Too-big-to fail banks, and the markets in which they participate, now know that they can expect to be bailed out if they get into trouble. As a result of this "moral hazard", these banks can borrow on favourable terms, giving them a competitive advantage based not on superior performance but on political strength. While some of the excesses in risk-taking have been curbed, predatory lending and unregulated trading in obscure over-the-counter derivatives continue. Incentive structures that encourage excess risk-taking remain virtually unchanged.

So, too, while Germany has shut down its older nuclear reactors, in the US and elsewhere, even plants that have the same flawed design as Fukushima continue to operate. The nuclear industry's very existence is dependent on hidden public subsidies - costs borne by society in the event of nuclear disaster, as well as the

costs of the still-unmanaged disposal of nuclear waste. So much for unfettered capitalism!

In the end, those gambling in Las Vegas lose more than they gain. As a society, we are gambling - with our big banks, with our nuclear power facilities, with our planet. As in Las Vegas, the lucky few - the bankers that put our economy at risk and the owners of energy companies that put our planet at risk - may walk off with a mint. But on average and almost certainly, we as a society, like all gamblers, will lose.

That, unfortunately, is a lesson of Japan's disaster that we continue to ignore at our peril.

The bottom line is that if we continue to let the top 1% - who are never satisfied, but always want more, more, more - run the show [in a cavalier, staggeringly risky manner] without challenge from the other 99% of people in the world, we will have more Fukushimas, more Gulf oil spills and more financial meltdowns.

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