

Unanswered Questions About the Economic Impact
of Gas Drilling in the Marcellus Shale:
Don't Jump to Conclusions

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Barth, an independent economic researcher, briefly critiques various reports that tout economic benefits to NY from drilling in the Marcellus shale. Major points are: (1) Industries that use materials, services, and labor primarily from within a region will have a greater effect on the local economy than those that draw from outside the region. The gas industry drilling in New York will rely on outside labor and support firms that are headquartered elsewhere, as are the major gas companies themselves, so corporate tax revenues will be reaped elsewhere. (2) Alan B. Krueger, Chief Economist and Assistant Secretary for Economic Policy at the US Department of Treasury, in his comments to the American Tax Policy Institute Conference, October 15, 2009, stated that because “the oil and natural gas industry is about ten times more capital intensive than the US economy as a whole,” encouraging oil and gas production is not an effective strategy for creating domestic jobs. (3) Data comparing the top ten gas-producing counties in NY to neighboring counties demonstrates that as of 2008 the gas-producing counties are no better off with respect to the percent of families below poverty, median household income, per capita income, or unemployment rate. (4) Much of the economic analysis of the NYS DEC’s draft Supplemental Generic Environmental Impact Statement (dSGEIS) came from a 1988 study focused primarily on the oil industry. That study, nevertheless, found an economic multiplier of 1.4, which means that “for every \$1.00 of well/drilling output, \$1.40 is contributed to the State’s economy through both direct and indirect effects.” The 1988 report states that the multiplier “is lower than [that of] many manufacturing and service industries [in NY].” A 2001 Broome County study found the multiplier for agricultural crops to be 2.28. The dSGEIS requires many actions by local governments and adds 150 new tasks to the workload of the DEC, yet none of the costs of this work are included in the dSGEIS’s economic analysis. (5) In Pennsylvania, despite continual increases in gas drilling, neither the number of jobs in the oil and gas industry, nor the jobs and payroll in the oil and gas industry as a percent of total state employment and payroll increased between 2001 and 2007. All showed a pattern of increase, sudden decrease, and gradual increase not yet returned to 2004 levels. (6) The often-quoted Broome County study, “Potential Economic and Fiscal Impacts from Natural Gas Production in Broome County, New York,” does not consider the costs of infrastructure repair, mitigation of environmental and health damage, declining property values, or declines in other industries. Furthermore, it does not look beyond 10 years to what is left in the region when the gas is depleted and the environment and other businesses are degraded, and does not consider the effect of using labor from outside the area. (7) A study of the Barnett Shale in Fort Worth, Texas by the Perryman Group shows large positive economic impacts of gas drilling in Texas, but does not reveal any of its funding or data sources, nor does it discuss the track record of the econometric model used. Furthermore, Texas differs from NY in that the labor and support services for the gas industry are local, and people who get rich from leasing are more likely to remain in the area to retire (and spend their money)—both because of the warm climate and because the area is already urbanized—so its character is not changed as much by drilling, causing long-time residents to leave. (8) The Penn State Study, “An Emerging Giant: Prospects and Economic Impacts of Developing the Marcellus Shale Natural Gas Play,” used data provided by the gas industry and “is an exercise commissioned by the natural gas industry to try to prevent the State of Pennsylvania from imposing a severance tax on natural gas.”