

The Energy Independence Solution

By Peter Z. Grossman*

Why does U.S. energy policy always seem to fail?

Because it is based on a story—a story that is 39-years-old and was mostly wrong even when it was first told, and bears little resemblance to reality today. Nevertheless, it is the story that most policymakers from both political parties seem to believe. I call this the “U.S. energy narrative” and it has been an impediment to effective policy for almost four decades.

The story goes something like this:

America is in the midst of an energy crisis and has been for several decades. At the heart of this crisis is the fact that the U.S. is dependent—in fact, “dangerously dependent”—on world oil markets.

Dependency is dangerous because the market is controlled by the nations of the OPEC oil cartel, many of whom wish us ill. This is troubling because they can cut off our oil supply, that is, use oil as a weapon to coerce us into changing our national policies; this is a threat to national sovereignty. Arab OPEC members used this weapon in 1973, and the weapon remains a threat. Any day an adversary or group of adversaries will unsheathe it.

In the event that OPEC nations should choose to “attack” us, Americans will sit in their cars waiting for gas and at home in the cold and the dark. Polls repeatedly have shown that Americans retain this fear, even though wide-scale protracted shortages of oil and gasoline have not occurred since the 1970s and even then the causes were misunderstood.

Yet dependency, by definition, has a solution: independence. According to the story, the only solution to this threat to our way of life is to become energy self-sufficient. Every president since Richard Nixon has embraced this panacea; the only disagreement is on the means not the ends.

For some, the means would be extensive drilling in such places as the Arctic Natural Wildlife Reserve or the Outer Continental Shelf. But to others any fossil-fuel panacea is inherently problematic. If we depended on our own conventional resources (recent expansion of natural gas production notwithstanding) we would find ourselves paying higher and higher prices until the “tap ran dry.”

But we can’t rely on world resources either. Not only is there the threat of the weapon, but also economic development in countries such as China and India, has led to rising world demand for oil and gas resources. In fact, demand will soon be out-stripping supply world-wide. The demand-supply gap will only get worse in the years ahead, and shortages will be ubiquitous.

The solution, according to this scenario, is for government programs to develop a new technology (or set of technologies) that provides super-abundant quantities of domestically-produced energy, at low prices. It is just a matter of harnessing U.S. know-how, making development a national priority, and funding it sufficiently—as we did to put a man on the moon. President Obama referenced the Apollo program with respect to energy as recently as his 2011 State-of-the-Union address.

In 1973 when this narrative became the common wisdom, it seemed to fit the facts. The Arab OPEC nations had imposed an embargo against the U.S. and the Netherlands for supporting Israel in the war that had begun on October 6. There were shortages of oil products, especially gasoline and diesel fuel, in the U.S., and given declining U.S. oil and gas production, greater dependence and vulnerability seemed inevitable. Neo-Malthusian analyses such as the “Limits to Growth” models suggested dire consequences ahead even if OPEC was willing in the short term to sell us more oil.

But in almost every respect the narrative was wrong.

Our gas lines were due to U.S. policies (price controls and later allocation controls). The demand-supply gap, first noted in the 1970s, was, and is, nonsensical; if the rate of demand growth exceeds the rate of supply growth (or even if supply stops growing or shrinks) there will be increases in prices.

Neither the U.S. nor the world is about to run out of any energy resources any time soon, though there could be temporary supply problems and fluctuating prices, resulting at times in short-term economic downturns that have had few long-term effects.

The government has never produced an important innovation that would move us toward the independence panacea. Economist and Obama administration advisor, Lawrence Summers, noted that the government is a “crappy” venture capitalist and cannot conjure up a commercial product with an Apollo program.

Moreover, the portrait of OPEC has been extremely simplistic. It is true that at times the organization has wielded market power. But exporters have been far

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more dependent on selling oil to us than we have been in buying it from them. Though fears of the oil weapon abound, in fact the embargo was a total fiasco from the standpoint of the exporters. Notice how often it's been used since 1973.

The narrative is counterproductive since it posits a world that doesn't exist and never has, and offers a solution—independence—that is next to impossible to achieve; it would be extremely costly and foolish to try.

Nevertheless, it is kept alive because it provides a bold-sounding, yet straightforward answer to a complex social-technological issue that affects the daily lives of everyone. But there are no easy answers, no cure-alls, for America's energy issues. It's not even clear what anyone means by "energy independence" much less what it would actually take to get there. As the late Nobel prize-winning social scientist, Elinor Ostrom observed, "[We need to] call attention to perverse and extensive uses of policy panaceas... We should stop striving for simple answers to solve complex problems."

Energy independence is a simplistic concept, but a logical goal given the energy narrative. Until the narrative changes, we will never see effective energy policy in the United States.