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State of the Union 2007: A Counterproductive Energy Policy

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Those who trust the free market more than the government to address the nation's energy challenges have sometimes cringed during President Bush's past State of the Union addresses. Unfortunately, the 2007 address (and the supporting materials released beforehand) added to this tradition, though there were a few bright spots as well. Overall, the energy plan described in this year's State of the Union would lead to higher, not lower, energy prices for the American people.

The Good. The President has not abandoned the single best energy idea Washington can undertake: expanding domestic oil and natural gas production. Recent Department of the Interior studies, conducted pursuant to the 2005 energy bill, confirm that the United States has substantial oil and natural gas deposits. These studies also show that much of these onshore and offshore resources are off-limits due to legal and regulatory constraints. In fact, America remains the only nation on earth that has restricted access to a substantial portion of its domestic energy potential. Removing the federal impediments on domestic exploration and drilling will allow for greater domestic supplies and potentially lower prices in the years ahead. Of course, the change in Congress makes passage of such measures unlikely, but it is important that the President has kept the domestic drilling debate alive.

The President also deserves credit for something he did not say: He did not announce a new program to cap fossil fuel use in order to fight climate change.

Such a measure would do far more economic harm than environmental good.

The President is also to be commended for recognizing that urban traffic congestion is a significant cause of air pollution and wasted fuel and for proposing financial incentives for states and communities to remedy the problem. One important approach that several states have recently adopted to reduce congestion are "performance based" transportation policies that hold state and local transportation officials accountable for achieving quantitative measures of congestion relief. In Texas, for example, the state department of transportation is required to reduce congestion by 50 percent in 25 years, while the Georgia department of transportation is required to reduce Atlanta's Travel Time Index by a specified amount over the next several years. Several other states have implemented similar plans, and many more are in the development stage.

In implementing his proposals, the President should resist efforts to impose certain specific processes—such as congestion charges or expensive commuter transit systems—on communities. Instead, he should set specific quantitative goals for congestion

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mitigation and allow each community to determine the most cost effective way to achieve them.¹

The Bad. The biggest idea in the speech was also the worst, the so-called “Twenty in Ten” goal, which is the logical result of his announcement in last year’s State of the Union Address that America is “addicted to oil.” The President proposes to reduce domestic gasoline use by 20 percent in 10 years and would do this by mandating that 35 billion gallons of renewable fuels be used to fill the void. This is a big jump from the current renewables mandate of 4 billion gallons per year, which is set to increase to 7.5 billion in 2012.

The current mandate, met mostly by corn-based ethanol, is already proving to be expensive. Adding even small amounts of ethanol to gasoline adds several cents to the price at the pump, and the mandate has raised food prices as corn supplies are split between food and fuel needs. Absent big breakthroughs that make ethanol production much cheaper, Twenty in Ten could send pump prices far higher than even the \$3.00 consumers complained about last summer.

For this reason, the President also promised more money for research into “cellulosic” ethanol, made from wood chips, grasses, or other plants materials instead of corn. The hope is that cheaper means of producing ethanol can supplement the corn-based variety and meet the 35 billion gallon target in a cost-effective manner. But cellulosic ethanol is far from viable at this point, and the track record for federally directed alternative energy research programs is not good. Most of the money for such programs has been wasted on boondoggles like the Carter-era Syn-fuels program, and cellulosic ethanol has all the hallmarks of being the next such Washington boondoggle. In addition, having the federal government direct the selection of new technology would have the effect of crowding out other promising technologies from being discovered and developed. Instead, the markets will respond to mandates and subsidies that reflect what Washington wants, rather than exploring breakthroughs not yet dreamed of.

The Twenty in Ten program and its 35-billion-gallon alternative energy mandate will likely be bad news for consumers. After all, the only reason these alternatives have to be mandated in the first place is that they are too expensive to compete otherwise. Twenty in Ten would force the American people to switch from less expensive gasoline to more expensive ethanol.

Beyond costs, it is not even clear if a big boost in ethanol use would reduce energy imports much. When certain factors are taken into account—specifically, that ethanol reduces fuel economy by a third compared to gasoline and that substantial amounts of energy are consumed to produce it—its use does not provide the additional energy benefits proponents claim. This proposal is seemingly at odds with other energy goals the President laid out in his speech.

Growing America’s way out of dependence on foreign oil makes for nice bipartisan-supported sound bites, and some version of this measure may pass, but the bottom line impact is very likely to be increases at the pump.

The President’s push for tighter fuel economy standards for cars is also bad news for the American people. Fuel-efficient models, including a growing number of hybrids, are already available for those who want them. An overly stringent new fuel economy standard would only serve to force that choice on everyone. Granted, it is easy to calculate big “fuel savings” from forcing people into vehicles smaller than they prefer, but this is hardly what the American people want or need.

Ideas For Improvement. Generally speaking, the President’s energy policy, as reflected in previous State of the Union addresses as well as this one, has drifted towards the same troubling approach Americans saw during the Carter Administration. President Carter thought that energy policy was something best managed by the federal government—Washington could dictate which types of energy to use and which not to use, what to use them for, and how much they should cost and com-

1. For more information on how to create a performance based transportation system, see Wendell Cox, Alan E. Pisarski, and Ronald D. Utt, Ph.D., “Rush Hour: How States Can Reduce Congestion Through Performance-Based Transportation Programs,” Heritage Foundation *Backgrounder* No. 1995, January 10, 2007, at www.heritage.org/Research/SmartGrowth/bg1995.cfm

mandeer private sector research and development programs. The result was a vicious circle of government bungling exacerbating problems—remember gas lines?—which led to new government bungling that made things worse. It ended only after Reagan took office and deregulated energy markets.

The President should take a less Carteresque and more Reaganesque tone on energy. Unleashing the free market by eliminating restrictions on drilling for domestic oil and gas is a good start. Streamlining regulations that hamper everything from refinery expansions to new coal and nuclear power plants is

another. Removing restrictions on the much more efficient sugar cane ethanol imports is yet another. These and other free-market steps, however, will not be easy to enact in the current Congress and so vetoing bad energy bills may be the most important thing the President can do in the next two years. But instead of stopping the big government energy bandwagon, the President appears in many instances to be joining it.

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