

Oil Policy Strategies: Assessing the Tradeoffs

Impacts/ Strategies	Increase oil and gasoline taxes	Increase fuel efficiency (CAFE)	Expand alternative fuels and transport technologies	Expand domestic oil production
Energy Security Effects	This option strengthens security by reducing oil consumption and exposure to disruptions and price shocks.	This option strengthens security by reducing oil consumption and exposure to disruptions and price shocks. The potential in the medium term (10–15 years) is considerable.	This option may strengthen security somewhat by increasing supply diversity and fuel flexibility. In the long run, it provides more significant opportunities to decrease oil use.	This option is unlikely to strengthen security, unless it lessens the geographic concentration of supply subject to disruption.
Environmental Consequences	This option reduces both conventional pollution and greenhouse gas emissions.	This option reduces greenhouse gas emissions.	The consequences depend on which fuels are chosen. Ethanol can cut both conventional pollution and greenhouse gas emissions. For electric-powered vehicles, benefits depend on electricity emissions.	This option increases both conventional pollution and greenhouse gas emissions.
Economic Effects (distinct from environmental and security consequences)	This option expands economic well-being as long as the revenues are used productively.	Economic effects depend on the relative degree of consumer myopia, environment, and other market imperfections versus the technology costs.	Smart R&D can improve economic efficiency. Subsidies typically cannot.	Increased access is a positive if environmental damages are lower than the expected profits from increased production. Subsidies to increase production are unlikely to benefit the economy.
Budget Effects	A \$10-per-barrel oil tax would bring in around \$70 billion a year to the federal treasury.	The effect on the budget is negligible, unless fuel economy is increased through heavy subsidies.	It depends on whether, and how, alternative fuels are subsidized or otherwise supported by government policy. Subsidies drain the budget.	Expanded production through increased access can raise royalty revenues. Subsidies to increase production drain the budget.
Political Prospects	Environmental and other tax shifts remain politically unpopular in the United States. Using revenues to reduce income taxes would help to compensate households for higher energy prices.	This option is popular with the public. Legislative mandates are unpopular with domestic automakers and unions.	This option is popular with the public, agricultural interests, and domestic automakers.	This option is popular with firms and resource-rich areas but unpopular with environmentalists.
Limitations	Potential for reducing oil consumption is limited in the very near term, although it encourages efficiency, conservation, and innovation in oil-saving technologies over the long term.	This option does not reduce vehicle miles traveled, an important avenue for reducing transport fuel use.	Producing ethanol from corn is limited. Cellulosic ethanol is not ready for the market but could expand the potential. Hydrogen will be decades in the future.	Past price increases and subsidies have, at best, cushioned the decline in conventional U.S. oil production.