

## *Reflections on Three Decades of Energy Policy*

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Often the statement is made that America lacks an energy policy. In truth, we have a plethora of policies intended to reshape energy markets. What people really mean is that we lack a coherent vision, with policies that are strong enough to generate major, sustained changes in the way energy is produced and consumed.

Over the last 30 years we have periodically engaged in intensive policymaking, usually in association with disruptive swings in energy prices. Each time we have struggled to achieve a national consensus.

That struggle has focused on both "ends" and "means." Essentially, there are four different goals that differing political factions have argued must be addressed.

The first is economic, namely, assuring that we can afford to fuel our homes, schools, industries, and commercial activities. All sorts of policy interventions to stimulate oil production, ethanol production, and so on have been defended on the grounds that they are important to our economic prosperity. Many of us have argued that efficiency and conservation additionally serve this purpose.

The second is protection of our national security. A host of concerns have been articulated: the threat of disruption of international oil and natural gas supplies by governments or terrorists; the pressure on our foreign policy to accommodate oil-producing states that are hostile to our values; the flow of wealth from U.S. consumers to rogue nations; and terrorism.

The third is guarding our environment—mitigating or preventing damage to our air, water, and land from the production and use of

energy, such as burning coal in power plants, combusting gasoline in vehicles, and disposing of nuclear waste. Given federal ownership of massive land acreage and the outer-continent shelf, major disputes arise over access for drilling and mining. Today, of course, climate change represents the mother of all environmental concerns, with calls for a radical overhaul of our energy systems in order to dramatically cut greenhouse gas emissions in the decades ahead. This issue had been identified by RFF scholars back in the 1970s.

A fourth goal has been addressing equity or fairness issues: concern for the poor and concern for regional impacts such as rising fuel oil prices for home heating in New England or gasoline prices for long-distance drivers in the West. When prices spike, political fights invariably erupt over how to protect the consumer from the producer. The intensity of equity fights rises and falls with prices.

Thus far, our political system has not been able to set priorities among these goals in a strong and sustained way. In the recent presidential campaign, the two major candidates essentially argued that we could serve all these goals, blurring the fact that policy that serves one goal may undercut another, such as support for coal-to-liquids.

In the last 30 years, we have seen a significant ebb and flow in government efforts to redirect our energy markets.

Following the Arab oil embargo of 1973, there was a major drive to cut oil imports and shield the economy from expected disruptions and price spikes. Independence was the mantra. Price controls had long been in place

for natural gas; oil-price controls were adopted in the 1970s as part of an economywide anti-inflation program of wage and price controls. Such controls proved to be counterproductive to reducing oil imports. They deterred conservation and discouraged domestic production, and, further, they disrupted the internal shipment of fuels to consumers. We appear to have learned the lesson of such failure: during the recent run-up in oil prices, no political leaders called for price controls.

During the 1970s, there were other major market interventions, including mandates, public investment, loan guarantees, and tax incentives. Auto manufacturers were required to meet fuel economy standards, utilities were required to purchase electricity from other industries that co-generated power, and utilities were prevented from building new natural gas facilities. On the public investment front, huge sums were appropriated for basic research into advanced energy technologies and for direct investment in large-scale demonstration projects meant to show, for example, that liquid fuels could be produced efficiently from coal. The tax code was reconfigured to provide incentives for a host of production and conservation activities, from installing solar panels to insulating homes, and taxes were levied on windfall profits from oil and on gas-guzzling vehicles.

Energy policy was radically overhauled during the 1980s: price controls on oil and natural gas were lifted; some mandates were ended; many tax incentives were repealed or allowed to expire; investment in large new demonstration plants ceased; and spending on research was cut back. Many of these changes derived

from the Reagan administration's belief that energy developments should be left to private markets, that the tax code should not be used for social engineering, and that government's role in research should be limited to advancing basic science. But change also resulted from the dramatic fall in oil prices in 1986 and the reversal in the conventional wisdom that prices were only headed upward. Investors, consumers, and political leaders in both parties lost interest in the development of unconventional and renewable fuels, energy conservation, and efforts by government to intervene in the markets.

In the 1990s, policymaking was re-energized. On the heels of the Iraqi invasion of Kuwait came bipartisan passage of the Energy Policy Act of 1992. In the act, market liberalization continued with the drive to bring competition into electricity wholesale markets. (Several states also moved toward competitive retail markets—a movement substantially set back by the California electricity crisis in 2001.) In the 1992 Act, tax incentives were again adopted, including the production tax credit that was viewed as an improvement over the old investment tax credits as a technique for promoting renewable power. Energy efficiency standards for select household appliances were also enacted. But the Democratic Congress and the Bush administration had no appetite for upgrading auto fuel economy standards or for public investment in large-scale technology projects.

In this decade, with the passage of comprehensive energy bills in 2005 and 2007, we have seen, on a bipartisan basis, the greatest market intervention since the 1970s. Mandates were imposed to promote ethanol production, to ban incandescent light bulbs, to improve fuel economy, and to upgrade household appliances. A host of tax provisions were adopted to entice changes in investor and consumer practices, including speeding the purchase of hybrids and all kinds of energy equipment in the commercial and industrial sectors and pushing production of conven-

tional and advanced fuels. Loan guarantees were re-introduced for advanced nuclear plants, advanced coal systems, and biofuel refineries. And there was a return to appropriations for big demonstration projects like the FutureGen coal plant, the fate of which is now questionable.

In recent years, rising prices and policy initiatives by federal and state governments have heightened investor interest in unconventional fossil fuels and in renewable fuels. As gasoline prices reached previously unimaginable levels, consumers sharply shifted their vehicle purchases away from suvs and even curbed their driving habits. In

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multiple ways, investors and consumers showed renewed interest in a host of energy-efficient technologies.

In the last few months, with a Katrina hitting Wall Street, the economy turning terribly sour, and oil prices plunging, all of these developments may be in jeopardy. Past experience suggests that investors, consumers, and political leaders will lose interest in greater efficiency and cleaner fuels.

This time, however, may be different. If the scientific community sustains or intensifies the latest assessment by the Intergovernmental Panel on Climate Change (IPCC), there should be greater motivation for action to curb greenhouse gas emissions. The stage was set when both presidential candidates called for mandatory controls that would transform the energy sector. Indeed both candidates connected that transformation to economic growth and to greater energy security. These connections are easier to make in rhetoric than in reality, but they represent a significant shift in the public discourse. Ahead remains the tough intellectual and political work to design, adopt, and sustain the policies that can meet the climate challenge and deliver economic growth, not only in the United States but around the globe. ■

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