



PHIL SHARP

Oil Déjà Vu?

We devote this issue of *Resources* to oil—the largest source of energy fueling American prosperity and indeed, the global economy. But the concentration of oil reserves in the Middle East has confounded our foreign policy, raising significant security risks, while projected growth in global consumption ensures that oil will continue to be the largest source of carbon dioxide (CO₂) emissions for decades to come.

The price of oil has powerful impacts on a host of investor decisions, consumer choices, and government actions. Recently, as gasoline moved toward \$3 per gallon, a new fervor arose for fuel-efficient vehicles and substitutes for gasoline. Those of us who dealt with similar issues in the 1970s understand Yogi Berra's feeling of "déjà vu all over again."

When prices spiked in 1973 and 1979, intense interest was exhibited in the market and in politics for reducing oil use. Most of this interest was dramatically undercut by the nosedive in prices in 1986. With the slide in prices in recent months, it remains to be seen whether the demand for conservation measures will be sustained and actually reduce our dependence on oil.

The conventional wisdom—at the moment—holds that oil prices will remain substantially higher than they were just two years ago. However, 30 years of hindsight suggest that great humility is warranted when predicting oil prices, much like predicting the direction of the stock market or election returns.

Three decades later, however, the challenges are considerably different. Higher oil prices have not had the predicted negative impact on our economy. China, India, and other developing nations are growing oil consumers. The adequacy of oil supply is subject to intense debate. Strong voices argue that current reserves are so overstated that production will soon be outpaced by demand. The more widely held view contends that while we are unlikely to find major new supplies of conventional or easy-to-get oil, reworking old fields, drilling for harder-to-get deep-water oil, and developing unconventional oil sources like tar sands and shale oil will meet world needs for the foreseeable future. But some of these sources require considerable energy to produce, resulting in even greater CO₂ emissions.

The most compelling difference from the 1970s: the intensifying scientific view that emissions of CO₂ and other greenhouse gases must be controlled to slow global warming. Whether motivated by concerns about adequate supply, security, or climate change, the United States and other nations are once again searching for effective policies to reduce oil use over time. If any of these policies are to genuinely work, we will have to avoid the on-again, off-again pattern of the past.



RESOURCES FOR THE FUTURE

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Published quarterly since 1959, *Resources* (ISSN 0048-7376) contains news of research and policy analysis regarding natural resources and the environment. The views offered are those of the contributors and should not be attributed to *Resources for the Future*, its directors, or its officers.

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Cover illustration by Randy Lyhus

Design and production: Meadows Design Office, Inc.

♻️ Printed with soy-based inks on 50% recycled (and recyclable) paper containing 15% post-consumer fiber; processed chlorine free.