The Role of Oil in the U.S. Economy: Insights from a Veteran Observer

An interview with Phil Sharp and Nathan Richardson

Resources asked one of RFF's newer experts on energy politics to discuss the evolving role of oil in the U.S. economy with another, one who was involved in major energy legislation during the 1970s oil crisis while he served in Congress. The latter, of course, is Phil Sharp, RFF's president; the former is Nathan Richardson, an attorney and resident scholar, who specializes in EPA regulation of greenhouse gases.

RICHARDSON: I want to start with a question about oil prices and gas prices in particular, because for most people, what's meaningful is the price per gallon. U.S. influence on world oil prices seems to be lessening at the same time developing countries are buying more and more oil. Is this a political problem or a policy problem? How should we react?

SHARP: The global oil market is gigantic—some 80 million barrels per day—and dynamic, subject to all kinds of forces from weather to political turmoil. Despite our size, we have very little ability to influence price in the short run. We are dependent—indeed, interdependent—with other major economies on that global market. Our influence on the market over time depends on our willingness to change consumption and production patterns.

RICHARDSON: Do you think the politics of oil were different in the high-oil-price world of the 1970s than they are in the low-oil-price world of today?

Phil Sharp in conversation with Nathan Richardson.

Ellen A. Walter

SHARP: Over the last 40 years, whenever there has been a dramatic increase in the price of oil, it has been followed by a surge in political action—by both parties—to reduce our dependency on oil by pressing for fuel efficiency; pushing for alternative fuels like ethanol or electrification of vehicles; and urging more domestic drilling. Of course, consumers and investors are driven by the higher prices in the same direction. But once those prices recede, unfortunately support for alternatives drops off in the political arena and in the marketplace. Thus far we have been unwilling to persistently pay the higher price that is necessary to fundamentally reduce our oil dependency.

RICHARDSON: Is there any reason to think this time will be different, as opposed to earlier periods of high prices, such as the 1970s, the first Gulf War, and 2008?

SHARP: Possibly. We have in place a number of policies—adopted in 2005, 2007, and 2009—which are changing our consumption patterns: progressively tightening fuel economy standards; the ethanol fuels mandate; tax incentives for consumers to purchase hybrid vehicles; and various investment incentives.

In the 1970s, there was widespread belief that rising gasoline prices were not only a political problem but would also have little influence on consumer consumption. Our experience with very high prices around 2008 has again demonstrated that price clearly matters, however painful it may be. Consumers quickly shift their vehicle purchases to obtain greater fuel efficiency; they drive less, if possible; and if they own more than one car, they drive the more efficient ones.

Many of these policies will again be subject to debate in Washington over the next two years. For example, what should be the fuel economy standards beyond 2016? And should the various tax incentives be continued?

RICHARDSON: Let's turn to oil sands and other alternative fuel sources like shale gas, for both carry serious environmental risks and high production costs. With the oil spill last year, we saw in painful detail that there are significant risks to drilling in deep water. To the extent that higher prices or higher demand around the world push us toward these resources, do you think we are having the right level of discussion about these risks?

SHARP: In the American political arena, we have great difficulty sustaining a discussion about the risks and how to manage them, but that's not atypical for any democracy where there are multiple issues at stake at all times. There were groups who thought the Macondo well accident would lead to a radical new public consensus that would say, "We don't want to take that risk. We want all such development to stop." Clearly, that has not happened.

Given that reality, at RFF we are focused on how the industry and the government regulators can improve their capacity to more accurately identify risks and manage them. This is a continuation of RFF's legacy of looking for ways to make regulation "smarter."

RICHARDSON: Do you see anything that's changed in the politics here? You had a long career in Congress and have seen these debates. What's new now—or is it all old news?

SHARP: Some of the public arguments haven't changed much, such as whether there are significant trade-offs between economic development and environmental protection. But there has been major change in the size of the global oil market, with some developing nations becoming major consumers. The risks associated with drilling in deepwater and on the Arctic frontier have scaled up. And, now climate change is a profound issue, which the United States and the world have only begun to take seriously. The drive for "unconventional" oil supplies—such as the Alberta oil sands, given the energy required to produce them—is upping the carbon intensity of our gasoline. We will be dealing with oil policy for years to come.