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MITT ROMNEY'S ENERGY PLAN

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Whenever gasoline prices are substantially above historic norms – which they are today, as we don't need to tell you – energy policy takes center stage in American politics. And whenever pollsters in presidential campaigns find swing states in energy country, you can bet that the stage will be lit like never before.

We all know what President Obama's selling on this policy stage; spend a ton of federal dollars on "clean energy," leave no lobbyist left behind (the meaning behind the omnipresent call for an "all of the above energy strategy"), and hope against experience that subsidy can turn ugly economic ducks into beautiful, commercially viable swans.¹ But what of Mitt Romney's energy sales pitch? It's better ... but not by much.

The Good

Mitt Romney lashes the president's "green jobs" initiatives as an abject failure and says "we should not be in the business of steering investment toward particular politically favored approaches."² Alas, he never comes right out and promises elimination of the various production tax credits and other subsidies directed to particular energy producers (green or otherwise) in the energy white paper that he rolled out with great fanfare in August.³ Shawn McCoy – a spokesman for Mitt Romney's Iowa campaign – told *The Des Moines Register* last July, however, that Romney "will allow

¹ For a good critique of President Obama's green energy policies, see Andrew Morriss, et. al., *The False Promise of Green Energy* (Cato Institute, 2011).

² "Believe in America; Mitt Romney's Plan for Jobs and Economic Growth; Energy Policy"; undated; <http://www.mittromney.com/sites/default/files/shared/Energy.pdf>.

³ "The Romney Plan for a Stronger Middle Class: Energy Independence," August 23, 2012; http://www.mittromney.com/sites/default/files/shared/energy_policy_white_paper_8.23.pdf.

the wind credit to expire, end the stimulus boondoggles, and create a level playing field on which all sources of energy can compete on their merits.”⁴

While one might think this is a no-brainer for Republicans, it is not. When John McCain ran for president, he supported that tax credit. When George Bush was president, he signed it into law. So credit Mitt Romney with a break from the Republican past.

But let’s not get too carried away. The promise was made by a relatively low-level campaign spokesman and is not found in the campaign’s published energy plan, so it’s unclear how solid that promise might be. Moreover, Romney’s spokesman only claimed that tax credits for *wind* energy (but not necessarily other forms of renewable energy) would be allowed to die.

The Bad

For all of his talk about ridding the energy sector of subsidy and government favoritism, Mitt Romney scores the president for refusing to “focus on refining technologies that burn coal cleanly.” Here, Romney is simply wrong.

“Clean coal” – an elastic term that, today anyway, usually refers to technologies that capture and sequester carbon emissions⁵ – has been a recipient of lavish government handouts for years, and those handouts have been growing – not diminishing – under the Obama administration. The Bush administration, for instance, spent \$2.3 billion total on

⁴ Jennifer Jacobs, “Lines now drawn on wind tax credit: Romney opposes it, Obama favors it,” *The Des Moines Register*, July 30, 2012; <http://blogs.desmoinesregister.com/dmr/index.php/2012/07/30/lines-now-drawn-on-wind-tax-credit-romney-opposes-it-obama-favors-it>

⁵ American Coalition for Clean Coal Electricity; <http://www.cleancoalusa.org/>.

carbon capture R&D and demonstration projects.⁶ The American Reinvestment and Recovery Act, signed in 2009 by President Obama, allocated \$3.4 billion for the same.⁷

Regardless, if one takes Mitt Romney's enigmatic criticism as a call for additional federal subsidies for "clean coal" – and it's difficult to take it any other way – the stench of politically convenient hypocrisy is unavoidable. If government shouldn't be in the business of "picking winners," why make an exception for alleged "winners" in the fossil fuel sector? Furthermore, why shouldn't coal companies pay for their own R&D?

The same issue crops up in Mitt Romney's support for the renewable fuel standard which this year (thanks to former President George Bush) requires oil refineries to produce 13.2 billion gallons of corn-derived ethanol, 2 billion gallons of ethanol that has only half the total lifecycle greenhouse gas emissions of corn-derived ethanol, 1 billion gallons of biodiesel, and 8.65 million gallons of a product – cellulosic ethanol – that doesn't even exist.⁸ Absent this Soviet-style mandate, the ethanol market would collapse because those fuels, to steal a phrase from the aforementioned Romney campaign spokesman, Shawn McCoy, cannot compete on their merits.⁹

How can one square Mitt Romney's support for this regulatory monstrosity with Romney's argument that "Instead of defining success as providing enough subsidies for an uncompetitive technology to survive in the market, success should be defined as

⁶ <http://awesome.good.is/transparency/web/1012/subsidize-this/flat.html>.

⁷ House Appropriations committee summary of conference committee agreement of the American Recovery and Reinvestment Act; <http://www.oregon.gov/energy/docs/HouseSummary02-13-09.pdf>, p. 4.

⁸ Randy Schnep and Brent Yacobucci, "Renewable Fuel Standard (RFS): Overview and Issues," Congressional Research Service, January 23, 2012; <http://www.fas.org/sgp/crs/misc/R40155.pdf>.

⁹ As of the last week of September, the average national prices for ethanol and biodiesel in wholesale markets – on a gasoline energy equivalent basis – were \$3.83 and \$4.69 per gallon, respectively. The average price of gasoline in those same markets was \$3.06 per gallon. *Alternative Fuels Index* 10:39, Energy Management Institute, September 27, 2012, p. 9.

eliminating any barriers that might prevent the best technologies from succeeding on their own”?¹⁰

We see the same thing in Mitt Romney’s position regarding nuclear power. While he loves to attack the administration for the guaranteed loans it has provided Solyndra and others, he defends far larger, equally risky \$18 billion of federal loan guarantees for new nuclear power plants.¹¹ Romney argues that those loan guarantees are necessary to indemnify investors if federal regulators don’t move expeditiously on permits, but the belief that permitting nightmares are responsible for the fact that no nuclear power plants have been built in the United States for more than three decades is ridiculous. Massive capital costs, low coal and natural gas prices, and a long history of cost overruns – not bureaucrats – explain the lack of construction activity even according to the industry itself.¹²

Sure, permitting delays in the 1970s had something to do with those high construction costs, but we find high construction costs and uncompetitive nuclear power prices even in pro-nuclear countries like France and Japan where the regulatory architecture is advertised as near-perfect (according to the nuclear power industry anyway).¹³ Regardless, the permitting process was thoroughly overhauled in the late

¹⁰ “The Romney Plan for a Stronger Middle Class: Energy Independence,” August 23, 2012, p. 19; http://www.mittromney.com/sites/default/files/shared/energy_policy_white_paper_8.23.pdf,

¹¹ “Transcript of our interview with Mitt Romney,” *The Washington Examiner*, December 7, 2011; <http://washingtonexaminer.com/transcript-of-our-interview-with-mitt-romney/article/992671#.UFnokK6oaSo>.

¹² For a brief summary, see Jerry Taylor and Peter Van Doren, “Nuclear Power in the Dock,” *Forbes.com*, April 5, 2011; <http://www.forbes.com/2011/04/04/nuclear-energy-economy-opinions-jerry-taylor-peter-van-doren.html>. For more in depth discussion, see Peter Bradford, “Honey: I Shrunk the Renaissance: Nuclear Revival, Climate Change, and Reality,” *Electricity Policy.com*; <http://www.electricitypolicy.com/bradford.pdf> and Henry Sokolski, ed., *Nuclear Power’s Global Expansion: Weighing Its Costs and Risks*, Strategic Studies Institute, U.S. Army War College, December, 2010.

¹³ Mark Cooper, “Policy Challenges of Nuclear Reactor Construction, Cost Escalation and Crowding Out Alternatives,” *Vermont Law School*, September, 2010

1980s.¹⁴ It hasn't been put to the test yet because investors haven't been willing to invest even with the feds guaranteeing a rebate on 80 percent of any monies spent ... which is really saying something for those interested in listening to market verdicts.¹⁵

In short, the right-wing fantasy that the feds killed (and are continuing to kill) nuclear is little different from the left-wing fantasy that "Big Oil" killed renewables.

Finally, there's Mitt Romney's curious promise to force private oil companies to share with the public whatever it learns from oil exploration onshore.¹⁶ If the feds require investors to share with non-investors the fruits of their economic labor, they will invest less than they might have otherwise because they cannot capture the full benefits of their investment. Oil and gas companies will have an incentive to free ride upon the exploration of others, deferring their own investment. And those who can't free ride will be hesitant to spend millions on geological research that might very well go – for free! – to their competitors. One would think that a Bain Capital executive would understand this point.

Most of Mitt Romney's energy plan, however, is neither particularly good nor particularly bad. It is simply ugly. Over and over again we find Romney making a great show of middling proposals that are so over-sold and misleadingly marketed that it's hard

http://www.vermontlaw.edu/Documents/IEE/20100909_cooperStudy.pdf, and Jim Harding, "Economics of Nuclear Power and Proliferation Risks in a Carbon-Constrained World," *Electricity Journal* 20:10, December 2007, pp. 65-76.

¹⁴ Congressional Research Service, "Nuclear Power: Outlook for New U.S. Reactors," March 2007 p. 6; <http://www.fas.org/sgp/crs/misc/RL33442.pdf>.

¹⁵ Technically, in the absence of public appropriated funds for particular loan guarantees, the loan guarantee program requires a deposit from a generating utility of the expected value of the guarantee cost, that is, the probability of default times the amount of the loan. Because public appropriations are not expected and generators are unlikely to pay the required deposit, the guaranteed loan program is unlikely to issue any loan guarantees.

¹⁶ "The Romney Plan for a Stronger Middle Class: Energy Independence," August 23, 2012, p. 14; http://www.mittromney.com/sites/default/files/shared/energy_policy_white_paper_8.23.pdf,

to take his campaign seriously. Worse, his rhetoric reinforces the silliness that informs so much of our wrongheaded approach to energy matters.

The “War on Oil”

First, let’s look at the middling proposals Mitt Romney offers to reverse what he and his supporters refer to as Obama’s “War on Oil.” Before we do, however, let’s note for the record that this “war” – to the extent there is one – has been half-hearted at best. U.S. oil production during the last year of the Bush administration stood at 5 million barrels per day but came-in at 5.66 million barrels per day in 2011.¹⁷ About 9 percent of the new jobs created in 2011, in fact, came from the oil and gas sector.¹⁸ Some war.

While Mitt Romney’s correct that oil production on *federal* lands fell by 14 percent in 2011, keep in mind that oil production on federal lands has actually grown by 11 percent since the last year of the Bush administration.¹⁹ Moreover, last year’s decline had little to do with President Obama’s alleged regulatory obstructionism. Oil production from onshore federal lands, for instance, *increased* from 108 million barrels in 2010 to 112 million barrels in 2011. The decline came from offshore oil production; 618 million barrels in 2010 versus 514 million barrels in 2011.²⁰

¹⁷ U.S. Energy Information Administration; http://www.eia.gov/dnav/pet/pet_crpdn_adc_mbbldpd_a.htm.

¹⁸ World Economic Forum, “Energy for Economic Growth 2012,” <http://reports.weforum.org/energy-for-economic-growth-energy-vision-update-2012/> p. 31.

¹⁹ U.S. Energy Administration, “Sales of Fossil Fuel Produced from Federal and Indian Lands, FY 2003 through 2011,” March, 2012, table 2, p. 3; <http://energy.gov/sites/prod/files/eia-federalandsales.pdf>.

²⁰ Ibid.

Why did offshore oil production fall last year? The U.S. Energy Information Administration – the source of Romney’s data – suggests that nothing systematic about federal permitting practices is at issue:

*Trends in Federal OCS production ...reflect the timing of several particularly important deepwater development projects over the past decade, as well as production disruptions and damage as a result of weather events to both producing infrastructure and projects under development. The latest offshore production data also reflect government actions taken following the 2010 Macondo disaster in the Gulf of Mexico.*²¹

Regardless, the increase in domestic oil production during the Obama administration is a consequence of rising global oil demand (increasing prices and thus the willingness to invest in marginal fields) and the migration of hydraulic fracking into the oil sector. While environmentalists don’t care for the latter, note that the Obama administration is doing little to crack down on it.²²

²¹ Ibid.

²² The Energy Policy Act of 2005, among other things, exempted hydraulic fracking from regulation under the Safe Drinking Water Act (which regulates discharges into groundwater) save for the use of diesel fuel in the process. Although the EPA issued rules on May 10, 2012, regarding the use of diesel fuel in fracking, the industry has been shifting away from diesel so that regulatory action is not very important. The Energy Policy Act of 2005 further exempted hydraulic fracking from the Resource Conservation and Recovery Act (which regulates the storage and disposal of hazardous materials), the Comprehensive Environmental Response, Compensation, and Liability Act (which would otherwise regulate site construction, drilling, and post-fracking production), the Emergency Planning and Community Right to Know Act (which requires public reports about the use of toxic substances) and key aspects of the National Environmental Policy Act. The exemptions are so legally tight that federal regulatory encroachment on exemptions would likely be dismissed by the courts unless the Congress were to amend the 2005 Act. Emily Powers, “Fracking and Federalism: Support for an Adaptive Approach that Avoids the Tragedy of the Regulatory Commons,” *Journal of Law & Policy* 19:913, 2011. Then-Senator Obama voted for the

Nevertheless, Mitt Romney indicts the administration on two grounds. First, President Obama stands accused of using the regulatory apparatus to veto proposed energy projects that should have been allowed to go forward. Second, Obama stands accused of refusing to open federal lands to oil and gas production that should be put into production.

While there is some truth to both of these complaints, the emphasis should be on “some” ... and Mitt Romney isn’t offering much of an alternative.

Keystone XL

Consider the Keystone XL pipeline, an issue which seems to find its way into almost every Romney speech out on the campaign trail. The first things that should be

2005 Act and has not offered his support for legislative efforts – primarily via the so-called FRAC Act of 2011 (“The Fracturing Responsibility and Awareness of Chemicals Act,” HR 1084) – to remove those exemptions.

Where EPA has been afforded scope for regulatory activity, however, it has acted. Most notably, on April 17, 2012, the agency issued final regulations restricting emissions of volatile organic compounds (a precursor to urban smog) for new fracking wells and facilities starting in January, 2015, and is threatening further regulatory action against methane emissions (an important greenhouse gas) and surface discharges of fracking liquids under the aegis of the National Pollutant Discharge Elimination System (which requires federal permits from point sources of surface water pollution), although no such activity is underway at this point. The EPA is also producing a study – a study Congress compelled as part of the Interior and Environment Appropriations bill in 2009 – on hydraulic fracking and groundwater contamination which industry fears will ultimately be used by environmentalists at the state level to further regulate the practice. Beyond the EPA, the Department of Interior has some authority over fracking on federal lands and on May 4, 2012, the Department issued draft regulations requiring frackers on federal land to get federal permits and to release information about the chemicals used in the fracking process. While there has been some industry complaint about those proposed regulations, only 5 percent of the natural gas produced by hydraulic fracking comes from wells on federal land, so the initiative will not effect the vast majority of the wells engaged in fracking. For a summary of these regulatory initiatives, see Ronald Tenpas and Charles Moldenhauer, “Federal Regulation of Fracking: A Changing Landscape,” *The Legal Enforcer*, Morgan Lewis, July 31, 2012;

<http://www.morganlewis.com/index.cfm/fuseaction/publication.detail/publicationID/56e11e09-029c-47da-8536-00f5c201cfce>, Sorell Negro, “Fracking Wars: Federal, State, and Local Conflicts over the Regulation of Natural Gas Activities,” *Zoning and Planning Law Report* 35:2, Thomson Reuters, February, 2012; http://www.rc.com/documents/Negro_FrackingWars_2012.pdf, and Ayesha Rascoe, “U.S. Proposes New Rules for Fracking on Federal Lands,” Reuters, May 4, 2012; <http://www.reuters.com/article/2012/05/04/us-usa-fracking-regulations-idUSTRE84315N20120504>.

noted is that stopping the construction of the Keystone XL pipeline had no consequential impact on U.S. gasoline prices.

While it's true that pipeline constraints in the Midwest reduce crude oil prices (and thus, crude oil production) in the Midwest given the higher costs associated with transporting that crude oil to refineries, those reduced prices are not passed through to wholesale gasoline or diesel consumers and, thus, are not passed on to motorists. That's because of two facts: refined product pipelines from the Gulf Coast are not constrained and inland refineries are at their production limits. Thus the marginal source of gasoline in the inland markets does not come from the inland refiners that have access to the cheaper crude oil. Instead, it comes from the larger Gulf Coast refined market, which is linked to the world market and higher world prices. This marginal source of gasoline from the world market establishes the price for *all* motor fuel sold in the inland market including the gasoline made by the inland refiners with the cheaper crude. This benefits oil refineries because they can buy Midwestern crude at low prices and sell the refined product – motor fuel – at more expensive, world market prices.²³

Building the Keystone XL pipeline would once again link Midwestern producers with the larger world market and increase the price for West Texas Intermediate crude to world market levels. But gasoline prices would remain constant. The increased money for crude would come from reduced profits for the inland oil refineries, a transfer of rents from oil refineries to oil producers.

²³ Severin Borenstein and Ryan Kellogg, “The Incidence of an Oil Glut: Who Benefits from Cheap Crude Oil in the Midwest?” Working Paper 18127, National Bureau of Economic Research, June, 2012.

While it's true that higher prices for Midwestern oil producers might induce more Midwestern crude oil production, that production increase would be small relative to the size of the world market and thus would have a small, if any, effect on crude oil prices.

But would the Keystone XL pipeline have a consequential impact on the unemployment rate? Mitt Romney thinks so and argues that letting that project go forward would create 100,000 new jobs.²⁴ The only independent study of the matter, however, persuasively argues that completing the pipeline would only create 4,650 temporary jobs eventually giving way to 50 permanent jobs.²⁵ One gets to 100,000 by counting jobs already having come (and in many cases, gone) from earlier stages of construction, by using wildly inflated “multipliers” regarding secondary and tertiary jobs that might be created by the project, and by assuming that all jobs will go to American workers (which has not heretofore been the case with this pipeline and almost certainly will not be the case in the future). Sure, President Obama traffics in the same over-the-top nonsense with regards to “green jobs” – something about which Mitt Romney frequently criticizes the president – but two wrongs don't make a right.

Drilling Permits on Federal Lands

The Keystone pipeline is used to symbolize the larger problem as Mitt Romney sees it; a federal government that has to be dragged kicking and screaming into letting any new oil or gas project go forward on federal lands. He substantiates his claim by pointing to a decline in the number of permits approved under President Obama, but that

²⁴ “Believe in America; Mitt Romney’s Plan for Jobs and Economic Growth; Energy Policy”; undated; <http://www.mittromney.com/sites/default/files/shared/Energy.pdf>.

²⁵ Cornell University Global Labor Institute, “Pipe Dreams? Jobs Lost by the Construction of Keystone XL,” September, 2011; http://www.ilr.cornell.edu/globalaborinstitute/research/upload/GLI_KeystoneXL_Reportpdf.pdf.

tells us little. What we want to know is what percentage of total permit applications have been turned down by the BLM? If that figure is on the rise, then we have some support for the charge.

Alas, Mitt Romney is careful never to offer such a number, and there's a good reason for that. In 2011, less than 1 percent of all permit applications to drill on federal land were rejected by the BLM. During the last year of the Bush administration, 16 percent of same permit applications were rejected by the BLM. Over the entire course of the Obama administration, 93 percent of all permit applications were approved. During the entire course of the Bush administration, 75 percent were approved.²⁶

The complaint, however, is more than one of permits denied; it's also of permits delayed. There's more truth to this particular charge, but not as much as you might think.

Mitt Romney reports, correctly, that it took an average of 307 days to approve a permit application to drill for oil and/or gas on federal lands during 2011 relative to 212 days during the last year of the Bush administration. Even so, the BLM reports that the bulk of the time involved in getting federal permits through the pipeline is associated with waiting for applicants to resolve problems flagged after the initial paperwork has been submitted. The amount of time involved in waiting on applicants has gone up since President Obama came into office – 78 days on average in 2008 versus 236 days on average in 2011 – but the time it takes for federal regulators to handle the paperwork on

²⁶ Authors calculation based on Bureau of Land Management and Department of Energy data found here; http://www.blm.gov/pgdata/etc/medialib/blm/wo/MINERALS_REALTY_AND_RESOURCE_PROTECTION/energy/oil_gas_statistics/data_sets.Par.65795.File.dat/table08.pdf and <http://www.doi.gov/news/pressreleases/upload/Final-Report.pdf>, p. 14.

their end has actually declined under Obama; 134 days on average in 2008 versus 71 days on average in 2011.²⁷

It's unclear why market actors are taking more time to fill out satisfactory permit applications under President Obama. Applicant delays may be caused by excessively persnickety federal bureaucrats, but then again, maybe not. There is no evidence that we can find suggesting who or what is to blame.

Our best guess is that Democratic regulators are somewhat less inclined to rubber-stamp permit applications than are Republican regulators, accounting for the increase of 74 days it took on average for applicants to respond to regulators from 2008-2010. The increase of 72 days it took on average to respond to federal regulators from 2010-2011, however, almost certainly had to do with the bureaucratic response to the Gulf oil spill in 2010. But that increased federal scrutiny would likely have followed whether Barrack Obama, John McCain, or Mitt Romney was in the White House last year.

Regardless, to cut down on the wait, Romney proposes to let the states take over the permitting from the feds.²⁸ While there's nothing necessarily wrong with that, Romney is careful to differentiate between letting states taking responsibility to shepherd permits through the bureaucratic pipeline and giving states the more important responsibility of deciding whether drilling in areas currently off-limits to industry can occur in the first place (something he's not actually not proposing ... as far as we can tell).

Here again, Mitt Romney is likely overselling what is a fairly modest proposal. While it's true, as Romney says, that it frequently takes state governments a few weeks to

²⁷ Bureau of Land Management;
http://www.blm.gov/wo/st/en/prog/energy/oil_and_gas/statistics/apd_chart.html.

²⁸ http://www.youtube.com/watch?v=It_3CAcOUT8.

approve permits for drilling on state or private land, that's largely because federal regulations are more sweeping and difficult to navigate than are state regulations. Deputizing state regulators to navigate those very same federal regulations will likely produce fed-like delays in permitting approval.

Opening-Up Federal Lands for Drilling

Beyond permitting reform, Mitt Romney suggests that he will open up more federal land for energy production. This might be nice, but again, we find little of substance to get excited about.

For instance, Romney promises to undertake the first comprehensive inventory of energy resources on federal lands. That's a good idea, but then what? Mitt Romney's only promise is to produce a five year leasing plan for drilling off the coasts of North Carolina, South Carolina, and Virginia²⁹ ... which is all well and good, but it's not exactly going where the big oil and gas deposits currently off-limits to the industry might be (primarily off the Pacific coast, eastern Gulf of Mexico off the Florida coast, and the Arctic National Wildlife Refuge).³⁰

²⁹ http://www.youtube.com/watch?v=It_3CAcOUT8.

³⁰ The waters off the Mid-Atlantic are estimated to harbor 1.5 billion barrels of undiscovered but technically recoverable crude oil. This pales in comparison to the 10.5 billion barrels thought to be off the Pacific coast, the 7.7 billion barrels thought to be in the disputed section 1002 area of AWRN, the 3.9 billion barrels thought to be in the eastern Gulf of Mexico, not to mention the 1.9 billion barrels thought to be off the Northern Atlantic coast; all areas currently off limits to the industry. Regarding natural gas, the estimated 15.1 trillion cubic feet (tcf) of undiscovered but technically recoverable reserves off the Mid-Atlantic again pales to the 21.5 tcf in the eastern Gulf of Mexico, the 18.3 tcf off the Pacific coast, and the 18 trillion tcf off the northern Atlantic coast. Marc Humphries, Robert Pirog, and Gene Whitney, "U.S. Offshore Oil and Gas Resources: Prospects and Processes," Congressional Research Service, April 26, 2010, Table 8, p. 14; <http://fpc.state.gov/documents/organization/142736.pdf>, and U.S. Geological Survey, "Arctic National Wildlife Refuge, 1002 Area, Petroleum Assessment, 1998, Including Economic Analysis," Fact Sheet 0028-01, Online Report, page last modified on December 4, 2008; <http://pubs.usgs.gov/fs/fs-0028-01/fs-0028-01.htm>. Of course, these estimates are simply educated guesses; actual recoverable stocks may be higher or lower.

Alas, Mitt Romney marries even this modest step with an undoubtedly crowd pleasing but ultimately wrongheaded proposal to set minimum production targets for companies drilling in those areas.³¹ Earth to Romney: oil and gas companies can be reasonably expected to produce all that the market will bear and to do so on a timetable that makes the most economic sense. What exactly is Mitt Romney saying here? That the feds need to force private investors to optimize production? That the feds should force production even if/when less production makes more economic sense? This is the sort of silliness one expects to hear from interventionist liberals, not free market conservatives.

Beyond that, Mitt Romney only promises to allow the oil and gas industry to go forth and drill “wherever it can be done safely, taking into account local concerns.” But that’s pure mush. The entire debate is largely about how much safety we should ask for (Mitt Romney doesn’t say) and how much deference the feds should give to local preferences (again, Mitt Romney doesn’t say).

The only hint that Mitt Romney offers about any of this is his reference to “local” concerns, not “national” concerns. The implication is that if Alaskans, say, oppose drilling in the Arctic National Wildlife Refuge (ANWR), he will take that into consideration (somehow). If Bostonians oppose the same, he will not.

The trouble here is that how much something is worth – such as the ANWR wilderness – is ultimately a matter of how much people are willing to pay for it. And willingness to pay for an untrammled ANWR has little to do with how close one lives to ANWR. Hence, Mitt Romney’s promise to pay attention to local concerns (not “non-

³¹ “The Romney Plan for a Stronger Middle Class: Energy Independence,” August 23, 2012, p. 10; http://www.mittromney.com/sites/default/files/shared/energy_policy_white_paper_8.23.pdf,

local concerns”) is a promise to undervalue wilderness protection in any hypothetical decision he might make about oil and gas development. Pro-development conservatives will probably not be troubled by this, but libertarians – who believe that federal decisions about how to allocate resources on public lands should mirror what the market would decide if the market were working perfectly – should.

The “War on Coal”

The rhetoric Mitt Romney offers about President Obama’s alleged “war on oil” is matched only by the rhetoric Romney deploys about Obama’s alleged “war on coal.” But here again, we find a great deal of sound and fury signifying surprisingly little. You would never know from GOP talking points, for instance, that U.S. coal production hasn’t changed much during President Obama’s watch; from 1.17 billion tons in 2008 to 1.1 billion tons in 2011.³² Nor would you learn that shale gas – not EPA regulation – is by far the biggest threat facing the coal sector today.

“Cap & Trade” Through the Back Door?

The most dishonest aspect of Mitt Romney’s attack on this front is the accusation that EPA’s proposed rule this spring to regulate carbon emissions from the power sector is “essentially achieving the effects of cap-and-trade without congressional approval.”³³ While we agree with Mitt Romney that Congress ought to declare that the Clean Air Act

³² U.S. Energy Information Administration, “Monthly Energy Review,” Table 6.1 http://www.eia.gov/totalenergy/data/monthly/pdf/sec6_3.pdf.

³³ “Believe in America; Mitt Romney’s Plan for Jobs and Economic Growth; Energy Policy”; undated; <http://www.mittromney.com/sites/default/files/shared/Energy.pdf>.

does not apply to greenhouse gases (if nothing else but because the decision about whether and how to regulate greenhouse gas emissions should be made by elected representatives of the people, not unelected executive branch bureaucrats), the charge that EPA's proposed regulation is giving us the economic costs of cap-and-trade through the back door is nonsense.³⁴

The rulemaking at issue does *not*, in fact, impose controls on all major emitters of carbon; it imposes controls only on new coal-fired power plants not yet in the permitting process.³⁵ While that might seem to be a big deal, it is not. Natural gas prices would have to exceed \$9.60 per million BTU (about triple the current price of \$3.19 as of October 1, 2012) on a sustained basis before new coal-fired power stations would be cost effective.³⁶ It would certainly be unprecedented. The average annual price of natural gas has *never* exceeded \$9.60 per million BTU.³⁷ And the price has been above \$9.60 in only 8 months over the last 15 years.

In short, the baseline scenario is no new coal-fired power plants as far as the eye can see. That's why even EPA concedes that its proposed rule will produce no benefits and accordingly, no costs.³⁸

³⁴ Jerry Taylor and Peter Van Doren, "President Obama's Alleged War on Coal - Climate Change Edition," *Forbes.com*, August 31, 2012; <http://www.forbes.com/sites/powerlunch/2012/08/31/president-obamas-alleged-war-on-coal-climate-change-edition/>.

³⁵ "Regulatory Impact Analysis for the Proposed Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units"; <http://www.epa.gov/ttnecas1/regdata/RIAs/egughgnspsproposalria0326.pdf>.

³⁶ See chapter 5, page 17 in "Regulatory Impact Analysis for the Proposed Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units" available at <http://www.epa.gov/ttnecas1/regdata/RIAs/egughgnspsproposalria0326.pdf>. As of October 5, 2012, the futures price of natural gas in September 2022 (the farthest out that one can buy gas on the New York Mercantile Exchange) is \$2.63 per million BTU.

³⁷ EIA "Annual Energy Review" Table 6.7 http://www.eia.gov/totalenergy/data/annual/pdf/sec6_17.pdf

³⁸ See page ES-3 in "Regulatory Impact Analysis for the Proposed Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units" available at <http://www.epa.gov/ttnecas1/regdata/RIAs/egughgnspsproposalria0326.pdf>

Going to the MATS

Less dishonest is Mitt Romney's charge that the administration has enacted regulations to reduce a host of conventional and toxic air emissions from coal-fired power plants. Those initiatives will, as Romney complains, impose non-trivial costs.

The main initiative at issue – the so-called MATS rule, or “Mercury and Air Toxics Standards” – will cost anywhere from \$9.6 billion to \$20 billion annually, depending on whose analysis you believe.³⁹ But Mitt Romney's charge that the costly MATS rule is responsible for mines being closed, coal-fired power plants retrofitting to gas, and generator shut-downs is a bit of a stretch given that the rules won't begin to kick-in for 3-4 years into the future ... to say nothing of the fact that even the industry concedes that most of coal's market retreat is driven by low natural gas prices.⁴⁰

Worse, Romney spends no time addressing the alleged benefits of reducing pollutants in the atmosphere; 11,000 fewer premature deaths a year according to the EPA. Without considering what we're buying, we have no idea if the regulatory “price” being paid is worthwhile.

Now, that's not to say that a reasonable argument can't be made against these alleged benefits. The 11,000 figure of course depends on our knowledge of the effect of low-level exposures over long periods of time and whether other factors contributing to mortality rates have been adequately controlled for in the underlying studies. The former

³⁹ The rule can be found here; <http://www.epa.gov/mats/pdfs/20111216MATSfinal.pdf>. An excellent overview of the 20-year struggle surrounding this rule and the economic issues introduced by the MATS can be found in Matt Bingham, “How EPA's New Rules Will Impact the U.S. Electric System,” *The Electricity Journal* 24:10, December 2011, pp. 14-30.

⁴⁰ “Michael G. Morris, the chairman of American Electric Power, the nation's largest consumer of coal said, “The math screams at you to do gas.” Eric Lipton, “Even in Coal Country, the Fight for an Industry,” *New York Times* May 30, 2012 p. A1. <http://www.nytimes.com/2012/05/30/business/energy-environment/even-in-kentucky-coal-industry-is-under-siege.html?pagewanted=all>.

is less than perfect and the latter is controversial. Romney, however, simply avoids the discussion completely; the rules are expensive, so they are objectionable on their face.

Even if the cost of those regulations exceed the benefits, let us entertain apostasy for a moment and suggest that the government should not automatically allow party A (coal-fired generators) to harm party B (people who breathe the air) because the cost of doing something about it costs parties in the “A” category more than the benefits created for parties in the “B” category. Libertarians think of pollution as a trespass upon the person and/or property of the other and look to the government to enjoin that transgression.⁴¹ Utilitarians, on the other hand, believe in the greatest good for the greatest number and rights be damned. We are not utilitarians and Republicans are at their best when they’re not either.

Regardless, Mitt Romney makes no promise to roll-back the MATS rule. That’s because he can’t without Congressional action. The regulation is the result of a provision in the 1990 Clean Air Act amendments that requires the EPA to determine the health effects of so-called toxic air emissions and the need to regulate the same. The Clinton Administration issued a regulation on these matters. The Bush Administration rescinded it and issued its own, which the courts struck down in 2008. The current rule is the product of an April, 2010 consent degree of an environmentalist lawsuit against the EPA.

Mitt Romney’s remedy is an overhaul of both the Clean Air and Clean Water Acts to improve efficiency and reduce regulatory costs. That’s great, but how? Who knows? “Mitt Romney will propose thoughtful and measured reforms of the statutory framework

⁴¹ See, for example, Murray Rothbard, “Law, Pollution Rights, and Air Pollution,” *Cato Journal* 2:1, Spring 1982, pp. 55-99.

to preserve our environmental gains without paralyzing industry and destroying jobs.”⁴² If there’s a politician alive who wouldn’t embrace that mission, we’d be awful surprised. The devil is in the details, but alas, Romney provides no details. And even if he did, consideration of environmental legislation paralyzes Congress. The last consideration was in the 1989-1990 session.

The upshot of all this is that President Obama’s relatively anemic “war on coal” compounds the problems faced by the coal sector but it is nowhere near the primary cause of coal’s economic troubles. Given excess generating capacity at present and the revolution in hydraulic fracking, declines in coal-fired generation and, thus, coal production would likely continue at nearly the same pace even if Obama’s “war” was called to a halt by some future Romney administration.

Energy R&D

Rounding out his complaint that President Obama is shortchanging coal in his near-maniac quest to deliver us into a clean energy future, Mitt Romney promises to redirect the money we’re spending on clean energy R&D (but, apparently, not fossil fuel R&D) and redirect that money to basic research. “There is a place for government investment,” Romney declares, “when time horizons are too long, risks too high, and rewards too uncertain to attract private capital.”⁴³

The question, however, arises; if those are all good reasons for market actors to say “no” to a particular investment, aren’t they also good reasons for politicians to say

⁴² “Believe in America; Mitt Romney’s Plan for Jobs and Economic Growth; Energy Policy”; undated; <http://www.mittromney.com/sites/default/files/shared/Energy.pdf>.

⁴³ “Believe in America; Mitt Romney’s Plan for Jobs and Economic Growth; Energy Policy”; undated; <http://www.mittromney.com/sites/default/files/shared/Energy.pdf>.

“no” as well, particularly given the current fiscal environment? Just why, exactly, do politicians feel justified to take liberties with taxpayers’ money that private investors would never take with their clients’ money?

Regardless, Mitt Romney promises to commercialize the technological breakthroughs he hopes to achieve through basic R&D via government-sponsored demonstration projects. Alas, there is a rich economic literature on the history of federal demonstration projects, and that literature could only be charitably described as “disappointing.” Economists Linda Cohen and Roger Noll explain why demonstration projects tend to fail (often spectacularly) in their landmark historical survey titled *The Technology Pork Barrel*:

In all cases except communication satellites, the government decided to build pilots, prototypes, or demonstrations despite concrete information that the technology was not ready for those projects ... Once commitments to build large-scale facilities had been made, projects did not respond to new information, or did so only after a long delay ... Hasty decisionmaking and inflexibility result from the convergence of two characteristics: technological optimism by advocates in the executive branch and impatience among political officials. Electoral politics causes politicians to favor programs that promise tangible results for the next election.⁴⁴

⁴⁴ Linda Cohen and Roger Noll, *The Technology Pork Barrel* (Brookings Institution; 1991), pp. 369-370.

Would a Romney administration – in love as it is, against all evidence to the contrary, with the economic promise of nuclear power, biofuels, and clean coal – prove immune to the incentives described by Noll and Cohen? Don't count on it.

Poll-Tested, Rhetorical Nonsense

If Mitt Romney's general rhetoric regarding energy policy was good, one might be tempted to overlook his unambitious and uneven policy agenda in the hope that better policies might follow once he's in office. But alas, Romney's energy rhetoric reinforces most of the economical ignorance that animates America's confused and counterproductive energy policy. At best, Romney's campaign will thus make it harder, not easier, to move energy policy in a more positive direction over the long run. At worse, future Romney policy proposals will even be worse than those found in his speeches and campaign documents.

Mitt Romney, for instance, breathlessly promises an energy independent North America by 2020 because Americans “rightly think about energy as a national-security issue.”⁴⁵ But it is no such thing.⁴⁶ High energy price shocks reduce economic growth.⁴⁷ Remember, if oil prices are high here, they're high everywhere, which means oil consuming nations like China are hurt as much as we are and potentially hostile energy producers like Russia, Iran, and Venezuela have as much – in fact, more – to lose from

⁴⁵ “Believe in America; Mitt Romney's Plan for Jobs and Economic Growth; Energy Policy”; undated; <http://www.mittromney.com/sites/default/files/shared/Energy.pdf>.

⁴⁶ For a more robust discussion of the issues related to oil imports and national security, see Jerry Taylor and Peter Van Doren, “The Energy Security Obsession,” *The Georgetown Journal of Law & Public Policy* 6:2, Summer 2008; http://www.cato.org/pubs/articles/taylor_vandoren_energy_security_obsession.pdf.

⁴⁷ For the best summary of the historical data, see Lutz Kilian, “Not All Oil Price Shocks Are Alike: Disentangling Demand and Supply Shocks in the Crude Oil Market,” *American Economic Review* 99:3, 2009, pp. 1053–69.

supply disruptions than we do. The claim that energy markets involve national security issues reinforces America's political instinct to defend oil producers that don't need or deserve our defense and to protect domestic energy producers that have no special claim for our collective help.

In addition, America gains no economic security from being energy independent. A supply disruption anywhere in the world will increase oil prices to a similar degree everywhere in the world. Embargoes are impossible to enforce in today's global oil market because producers cannot control the ultimate destination of their product without deploying a navy to blockade embargoed ports. The fear that oil imports leave us vulnerable to the market and that independence is a remedy for that vulnerability mark the arguments of someone who either doesn't understand how modern oil markets work or who prays on the audience's lack of understanding.

Finally, Mitt Romney also echoes T. Boone Pickens, among others, by claiming that, "If instead of sending hundreds of billions of dollars overseas we can send them to our own energy-rich centers, the nation as a whole will experience the economic benefits that we currently see other countries enjoying at our expense."⁴⁸ Nonsense. America is not made poorer by buying resources from abroad if it costs more to buy them from domestic producers (the only reason, at the end of the day, that we import crude in the first place; it's cheaper). Furthermore, dollars sent abroad can only be used to purchase or invest in things offered in dollarized economies, so most of that money is recycled back into the United States anyway.

⁴⁸ "Believe in America; Mitt Romney's Plan for Jobs and Economic Growth; Energy Policy"; undated; <http://www.mittromney.com/sites/default/files/shared/Energy.pdf>.

Don't get us wrong; more U.S. energy production is a good thing. It's just that the benefits are greatly overstated - and it will occur regardless of who's elected given that both presidential candidates agree that the feds should step aside and let the fracking revolution play itself out in both the oil and gas sectors.

What Romney Should be Saying

What should Mitt Romney have offered instead of this mess? A truly ambitious market-oriented energy plan would primarily rest on two simple, straight-forward initiatives.

First, sell-off federal lands blessed with energy resources or suspected of husbanding the same. There is no obvious reason why leasing development rights and royalties will return more money to the federal treasury over the long run than would a one-time auction. Plenty of oil and gas development occurs on private land. Why not more?

Two additional benefits would follow from privatization. First, it would end all of the controversy – and occasional scandals – regarding permitting and appropriate lease and royalty terms and rates; controversies that have bedeviled administrations for as long as private parties have been using public lands.⁴⁹

Second, it would allow conservationists to bid away development rights from the oil and gas industry, ensuring that resource rights go to the parties that value them most rather than the parties that have the most political pull. The federal government can no

⁴⁹ Richard Gordon, "The Gulf Oil Spill: Lessons for Public Policy," Policy Analysis 684, Cato Institute, October 6, 2011; <http://www.cato.org/pubs/pas/pa684.pdf>.

more intelligently decide how to best use public lands with competing demands than it can intelligently decide how to allocate resources across the economy. And make no mistake; environmentalists and conservationists reflect underlying market demands for existence value and recreational services and those demands deserve a voice.

If an auction is politically impossible, an alternative approach would be to issue federal scrip to every adult American with a social security number that could only be redeemed in a land auction.⁵⁰ We could all then decide for ourselves whether to sell that scrip to the highest bidder, donate it to some conservation organization, or accumulate scrip ourselves for whatever purpose. This would create a constituency for privatization because the proceeds would go directly to the American people, not the federal treasury. It would also circumvent the objection that wealth disparities would ensure that sensitive lands would automatically find their way into the oil and gas industries even when “willingness to pay” would suggest a different allocation of land. If the public lands are truly owned by everyone – as the Left likes to tell us – then why not let “everyone” decide for themselves how to use their shares in that land?

Were the most lucrative oil and gas fields currently off-limits to the industry opened-up in this manner, the most likely economic consequence would be \$1.7 trillion in wealth creation – a substantial part of which would be deposited into the federal treasury or directly into the bank accounts of Americans – and a 1-2 reduction in world crude oil prices.⁵¹

⁵⁰ This idea is fleshed out in Terry Anderson, Vernon Smith, and Emily Simmons, “How and Why to Privatize Federal Lands,” Cato Policy Analysis 363, December 9, 1999; <http://www.cato.org/pubs/pas/pa363.pdf>.

⁵¹ Robert Hahn and Peter Passell, “The Economics of Allowing More Domestic Oil Drilling,” Working Paper 08-21, AEI Center for Regulatory and Market Studies, August 2008, revised September 2008.

The second foundation of an ambitious, market-oriented energy plan would be a sweeping elimination of all federal energy subsidies. Eliminate all tax preferences, production and consumption mandates, and direct expenditures for the oil, coal, gas, nuclear, and renewable energy industries. Let the market – not politicians – decide what’s to be built and let the best fuel win.

Energy is no different than any other commodity in the market place. There is no “BTU exception” to insights found in *The Wealth of Nations*.⁵² The only “market failure” arguably found in the energy sector is the uninternalized environmental externalities associated with energy consumption. Rather than address that problem with government (read, political) decisions about what fuels to use, better to internalize those externalities through taxes and then let the market work as designed.

Were some future Congress to accomplish these two things, energy markets would be substantially free from state interference. Four less important initiatives, however, would round out the job.

First, sell-off all of the crude oil and infrastructure held by the Strategic Petroleum Reserve (SPR), shut it down, and withdrawal from the International Energy Agency.⁵³ There are no market failures in the private oil inventory market and thus no reason to fear that private inventory accumulation will be suboptimal. The SPR, moreover, has delivered far more costs than it has benefits and erratic political management of the

⁵² For a summary of the case against intervention in energy markets, see Richard Gordon, “The Case against Government Intervention in Energy Markets,” Policy Analysis 628, December 1, 2008; <http://www.cato.org/pubs/pas/pa-628.pdf>.

⁵³ The various arguments for shutting down the SPR can be found in Jerry Taylor and Peter Van Doren, “The Case against the Strategic Petroleum Reserve,” Cato Policy Analysis 555, Cato Institute, November 21, 2005; <http://www.cato.org/pubs/pas/pa555.pdf>.

reserves introduces instability in the market because it's difficult to predict if / when the vast federal reserves might be released.

Second, replace energy R&D – and in fact, all targeted R&D – with a refundable R&D tax credit. The market failure associated with R&D isn't that market actors are less informed about what to invest in than are political actors. The market failure is that market actors will invest suboptimally in R&D across the board because they cannot capture the full gains associated with discoveries and innovations. A refundable tax credit for R&D expenditures addresses the former problem more directly than does targeted, politically allocated R&D and patents address the latter problem. No more needs to be done.

Third, eliminate all energy conservation mandates. When energy prices are high, people have an incentive to conserve and businessmen, accordingly, have an incentive to produce energy efficient goods and services. There is absolutely no market failure here and little real world evidence to suggest that consumers respond to high energy prices suboptimally.⁵⁴

At best, one could argue that energy consumption costs for some things – like consumer appliances – are hard for consumers to ascertain, in which case the most direct remedy (if any were needed) would be product labeling. Energy conservation mandates

⁵⁴ Gilbert Metcalf, "Economics and Rational Conservation Policy," *Energy Policy* 22, 1994, pp. 819-825; Gilbert Metcalf and Donald Rosenthal, "The 'New' View of Investment Decisions and Public Policy Analysis: An Application of Green Lights and Cold Refrigerators," *Journal of Policy Analysis and Management* 14:4, 1995, pp. 517-531; Kevin Hassett and Gilbert Metcalf, "Energy Conservation Investment: Do Consumers Discount the Future Correctly?" *Energy Policy* 21:6, 1993, pp. 710-716; Avinash Dixit and Robert Pindyck, *Investment under Uncertainty* (Princeton University Press, 1994); Albert Nichols, "How Well Do Market Failures Support the Need for Demand Side Management?" National Economic Research Associates, 1992, pp. 22-25; Ruth Johnson and David Kaserman, "Housing Market Capitalization of Energy-Saving Durable Good Investments," *Economic Inquiry* 21, 1983, pp. 374-386; Ronald Sutherland, "The High Costs of Federal Energy Efficiency Standards for Residential Appliances," Policy Analysis 504, Cato Institute, 2003; Paul Ballonoff, "On the Failure of Market Failure," *Regulation* 22:2, 1999, pp. 17-19; and Molly Espey, "Do Consumers Value Fuel Economy?" *Regulation* 28:4, Winter 2005-2006, pp. 8-10.

simply substitute political judgment regarding how resources ought to be allocated for private judgment and there's no reason to believe that the information informing the former is superior to the information informing the latter (pace F.A. Hayek's *The Pretense of Knowledge*).

Fourth, shut down the Department of Energy (DOE) and privatize the national labs. The DOE actually intervenes little in energy markets beyond managing various subsidies that we would eliminate. The DOE is primarily engaged in national defense (nuclear weapons) work and hiring / managing contractors for cleanup of federal lands. Turn the former over to either an independent agency or to the Department of Defense. Turn the latter over to the Bureau of Land Management or the EPA. Eliminating the DOE would make it more difficult for some future Congress to once again try to commandeer energy markets for political purposes.

Conclusion

Our complaint with Mitt Romney's energy plan is that, while on the whole better than President Obama's, it is thin gruel indeed for those who wish to free the energy sector from the heavy hand of government. It suggests thoroughgoing reforms that are not delivered. It declares principles that are ignored in practice. It misdiagnoses problems and too frequently compounds policy damage. Most importantly, it misses a golden opportunity to offer a robust alternative to President Obama's heavy handed interventions in energy markets.

Many who sympathize with our ideal energy policy might object that it's too "ivory tower" to have any relevance in contemporary political campaigns.⁵⁵ Accordingly, it's unfair to judge Mitt Romney by how closely his policies comport with the ideal. We have three responses.

First, it is the policy analyst's job to tell the public what policy *ought* to be. It's the politician's job to figure out how best to get from here to there. Policy analysts have a comparative advantage regarding the former task but no necessary skills or talents in achieving the latter task. A proper respect for division of labor should govern.

Second, we're not convinced that our agenda is as politically far-fetched as it might seem at first glance. Most Americans support private property relative to state ownership. Most Americans reject political control over the means of production. Most Americans are aware that oil, gas, and coal extraction already occurs to a large extent on private land and have no principled objection to that.

Moreover, a growing number of policy intellectuals on the Left have embraced a zero-subsidy energy ideal. Carl Pope (the former executive director of the Sierra Club), Amory Lovins (the most popular and visible energy analyst on the Left), Jeffrey Leonard (the CEO of the Global Environment Fund and an influential voice for environmentalists regarding energy policy), and David Roberts (an influential staff writer at *Grist*, a premier environmental blog) have all endorsed this idea.⁵⁶ There may be more fertile ground here than is popularly realized.

⁵⁵ A less ambitious conservative energy policy agenda that is less likely to be tagged "ivory tower" can be found in Mark Mills, "Liberating the Energy Economy: What Washington Must Do," Manhattan Institute for Policy Research, September, 2012; http://www.manhattan-institute.org/pdf/pgi_02.pdf.

⁵⁶ Edward Crane and Carl Pope, "Fueled by Pork," *The Washington Post*, July 30, 2003; <http://www.cato.org/publications/commentary/fueled-pork>, Amory Lovins, "Nuclear Socialism," *The Weekly Standard*, 16:6, October 25, 2010; http://www.weeklystandard.com/articles/nuclear-socialism_508830.html, Jeffrey Leonard, "Get the Energy Sector off the Dole," *Washington Monthly*,

Third, even if the ideal is politically unfeasible at present, that's all the more reason to argue for it forcefully. As F.A. Hayek wrote in *The Intellectuals and Socialism*:

The most serious obstacle which separates the practical men who have the cause of freedom genuinely at heart from those forces which in the realm of ideas decide the course of development is their deep distrust of theoretical speculation and their tendency to orthodoxy; this, more than anything else, creates an almost impassable barrier between them and those intellectuals who are devoted to the same cause and whose assistance is indispensable if the cause is to prevail.

The main lesson which the true liberal must learn from the success of the socialists is that it was their courage to be Utopian which gained them the support of the intellectuals and therefore an influence on public opinion which is daily making possible what only recently seemed utterly remote. Those who have concerned themselves exclusively with what seemed practicable in the existing state of opinion have constantly found that even this had rapidly become politically impossible as the result of changes in a public opinion which they have done nothing to guide. Unless we can make the philosophic foundations of a free society once more a living intellectual issue, and its implementation a task which challenges the ingenuity and imagination of our liveliest minds. But if we can regain that

*belief in the power of ideas which was the mark of liberalism at its best,
the battle is not lost.*⁵⁷

⁵⁷ F.A. Hayek, "The Intellectuals and Socialism," *The University of Chicago Law Review*, Spring 1949, pp. 417-433; <http://mises.org/etexts/hayekintellectuals.pdf>.