

ECOLOGY

27. Energy

Energy, like other goods and services in the economy, should be left to consumers and entrepreneurs in the market, not "planned" by governmental bodies. In fact, the long history of U.S. oil, gas, and electricity regulation, taxation, and subsidization makes abundantly clear that shortages and energy crises are engendered by government intervention, not market failure.

Oil and natural gas today are cheap and plentiful, as they almost always have been when not subject to heavy government regulation. Regulated electricity rates, on the other hand, are widely recognized as too high. Yet a competitive, deregulated market for electricity looms on the horizon as many states are currently debating radical electric utility restructuring. Although energy consumers have profited handsomely from the deregulatory undertakings of the 1980s, much more can and should be done to move energy from the dead hand of government planners into the invisible hand of the marketplace.

Congress should

- **eliminate the Department of Energy and all its related functions, including the dense web of technological and industrial subsidies;**
- **privatize or liquidate the Strategic Petroleum Reserve and withdraw from the International Energy Administration;**
- **repeal the oil export ban;**
- **privatize federal energy assets and land holdings;**
- **eliminate the Federal Energy Regulatory Commission and repeal the Public Utility Regulatory Policies Act, the Public Utility Holding Company Act, the Rural Electrification Act, the Natural Gas Act, the Federal Power Act, and the Petroleum Marketing Practices Act.**

Eliminate the Department of Energy

The first place to begin the dismantling of energy intervention is at the Department of Energy. The problem with the DOE is not its administrative

structure but the very **fact** of its existence. The **department's** responsibilities should **not** be reshuffled to other **agencies**; they should be summarily ended.

A centralized federal agency is dangerous because it offers "one-stop" central planning. The thousands of pages of regulations that emanated from the DOE and its predecessor agencies in the 1970s are testament to the perils of **federal** bureaucracy. The privatization of energy **decisionmaking**, not DOE's emergency preparedness program, is the nation's "insurance policy" against any future energy challenge.

Elimination of the DOE should entail returning its nuclear activities to an independent **noncabinet** agency, transferring its environmental activities to the Environmental Protection Agency, and abolishing all subsidies for energy conservation and energy technologies.

Market prices, not taxpayer or ratepayer dollars, should determine the optimal level of energy usage. Since prices reflect relative scarcity, it is axiomatic that if a "**green**" or "**renewable**" energy source is more expensive than traditional energy sources, the resources required to "go green" are more scarce than the "**nonsustainable**" alternatives. Consequently, resources are being wasted, not conserved.

Political favoritism toward renewable energy sources is misplaced, particularly since renewable energies each have their own, seldom acknowledged environmental problems, such as bird deaths from wind generation of electricity, heavy industrial waste from the manufacture of solar equipment, energy inputs that exceed energy outputs from biomass sources, and damaged river habitats from **hydropower**. If fossil fuels begin to become scarcer (and they are more plentiful today than ever before), that scarcity will be reflected in rising prices and fuel switching in the marketplace. Government involvement is not necessary.

Subsidies to traditional energy technologies and industries are perhaps even more egregious and should be eliminated as well. The Clean Coal program, for example, has cost taxpayers billions of dollars and is beginning to rival the notorious Carter-era Synfuels program for economic waste and technological futility. Advanced nuclear fusion research likewise promises to cost billions more with highly uncertain technological benefits in the foreseeable future. If those programs and others **like** them have any commercial promise, the coal and nuclear industries, respectively, should invest their *own* money in research and development and leave the taxpayer alone.

Likewise, federal subsidies and market distortions to increase energy conservation are misguided and counterproductive. Conservation for its

own sake is not necessarily efficient. For example, increasing the use of one input, such as energy, while decreasing the use of another, such as labor, may lead to greater efficiencies and cost savings and should not be reflexively criticized as "wasteful." Dozens of studies have found that conservation subsidies to gas and electric consumers are uneconomic and save less energy than claimed. Moreover, the very rationale for those programs is dubious, given the persistent energy gluts that characterize global markets.

Dissolution of the DOE should also include the elimination of many high-profile energy programs that are managed by the department but are significant in their own right, such as the Strategic Petroleum Reserve and the plethora of federal energy assets (discussed below). All told, such cuts would save taxpayers \$7 billion annually in addition to the truly impressive one-time revenue gains that would accrue from privatization.

End the Legislative Energy Crisis

Appropriately, most of the ill-considered energy-crisis legislation of the 1970s has been repealed: oil price and allocation controls were eliminated in 1981, the Synthetic Fuels Corporation in 1985, restrictions on oil and gas use for baseload energy in 1987, the Windfall Profits Tax in 1987, and natural gas wellhead price ceilings in 1993. Yet four major legacies of that era remain to be dealt with by the 104th Congress: the Strategic Petroleum Reserve, the International Energy Administration, the oil export ban, and the Petroleum Marketing Practices Act.

Strategic Petroleum Reserve

The Strategic Petroleum Reserve has proven to be an abject failure, and its problems have only mounted while it has waited for the energy crisis that has not come—and will not come without a reimposition of price and allocation regulation.

Taxpayers are burdened with billions of dollars of net booked cost in excess of current market value and face expensive upgrades to maintain the withdrawal readiness of the SPR. It is time to privatize or liquidate the stockpile (currently 591 million barrels) and all related facilities. Not only would that benefit the Treasury with billions in revenue, it would promote good energy policy across the board. Without the SPR's safety net, government officials would be less tempted to interfere with market prices and allocation. Absent the long shadow cast by the reserve, corporate entities would be encouraged to provide for their own stockpiles without

fear of being drowned by a flood of government oil (and collapsing prices) in the event large withdrawals were made. Yet even private stockpiles are of little value in today's oil market, where futures contracts accomplish what stockpiles once did without the sunken costs.

International Energy Administration

The withdrawal of the United States from the 21-member International Energy Administration naturally complements the privatization of the SPR. The IEA was established to centrally manage oil distribution in the developed world in the event of a major disruption in international supply. But oil pricing and allocation should be market driven, not influenced by an international tribunal of would-be planners. Any multinational effort to alter market forces promises a repeat, on a much larger scale, of the shortages and distortions created by federal price and allocation controls in the 1970s. The SPR is the linchpin of the IEA oil-sharing program; ending the SPR would likely also mean the end of the IEA—a positive development for the international market.

Oil Export Ban

The oil export ban, enacted in 1973, should also be repealed. By preventing the export of Alaskan oil, the ban forces North Slope crude on West Coast refiner markets, thus artificially driving down prices for producers. Lower producer prices, in turn, have discouraged drilling and related activity in Alaska and California, which has meant more, not less, foreign oil imported than would otherwise have been the case.

Petroleum Marketing Practices Act

Since 1977 the Petroleum Marketing Practices Act has politicized gasoline marketing by subsidizing lessees at the expense of the lessors in franchise relationships. That has not only increased costs but weakened service standards. The federal government should not dictate such contractual relationships, and Congress should move to eliminate the act.

Privatize Federal Energy Assets

The dual attraction of selling federal energy assets to the private sector is (1) the accrual of billions of Treasury dollars that can be used for deficit reduction and (2) the significant stimulus that such a policy would provide to the energy economy. Accordingly, Congress should sell its five federal

power marketing agencies, four naval petroleum reserves, three oil shale reserves, and all DOE research and development laboratories.

All of those entities and programs should be privately reorganized. Power-marketing agencies such as the Bonneville Power Administration are poorly managed at taxpayer expense. They historically have caused serious environmental damage by utterly destroying river ecosystems and often generate more pollution than the industry standard. Moreover, their mission of subsidizing the use of electricity only serves to encourage inefficient energy consumption. The naval petroleum reserves and various federal oil shale reserves share all the problems of the SPR. And the federal energy laboratories are blatant subsidies to an energy industry that can "free ride" on taxpayer-funded research and development that most other industries rightly pay for themselves.

Finally, the Rural Electrification Administration and its activities, a federal subsidy program whose time has long since passed, should be scrapped.

Unshackle the Domestic Energy Industry

The domestic energy industry operates in a regulatory straitjacket that prohibits the commercialization of vast energy holdings, micromanages commercial practices, and discourages market entry. The rationales for those anti-competitive practices are discredited relics of the Progressive Era: that government planners are better land managers than are private stewards and that energy corporations are natural monopolies that must be overseen by political bodies. It is time to jettison those myths.

The U.S. petroleum industry has steadily lost market share to foreign oil suppliers. Although that partly reflects the fact that the lower 48 states are a very mature oil province, it also is because drilling in and production from the most promising regions of the country—the Arctic National Wildlife Refuge and other Alaskan areas, the outer continental shelf, and Point Arguello off California—have been blocked by Congress. Privatizing oil and gas lands would provide a tremendous windfall to the U.S. Treasury, make the much-maligned "high-cost" U.S. energy industry more globally competitive, and provide a stimulus to the American economy.

Federal land leasing for oil and gas development has been regulated by the Department of the Interior since the first claim was made in 1880. Not surprisingly, politicization has hallmarked public land development since. Yet economics, not politics, should dictate how land is used, and those decisions should be made by private landowners, not absentee

government planner-landlords. Congress should do more than simply change the rules about how certain public lands like ANWR are used. It should get out of the business of owning commercially valuable real estate altogether and sell those lands to the public. If Boris Yeltsin can do it, so can the U.S. Congress.

Congress should also dismantle the thicket of public interest energy regulation that serves only to protect industries from vigorous competition. The Natural Gas Act, for example, regulates new interstate pipeline entry and should be repealed. Antitrust immunity should be withdrawn from the Interstate Oil Compact Commission, an oil-state organization that coordinates the regulatory policies of its members. And the Public Utility Holding Company Act of 1935, a law that regulates the corporate structure of gas and electric companies, should be repealed. The notion that federal bureaucrats know better than entrepreneurs how to most efficiently organize corporate endeavors is unmerited, as is the notion that the consumer somehow benefits from protecting existing firms from new and different competition.

Interstate oil and natural gas pipelines and electric transmission are governed by the Federal Energy Regulatory Commission under traditional cost-based public utility regulation. Deregulation can be accomplished several ways, and perhaps the best is to broaden the definition of "workable competition" to include situations of potential entry to markets. To that end, regulatory barriers should be removed to expedite market entry. Workable competition aside, parties can also be allowed to negotiate "exit contracts" with FERC that improve upon current regulatory defaults and the uncertain outcome of future rate cases.

The amply demonstrated costs and imperfections of the regulatory process are reason enough to give the benefit of the doubt to open-entry markets. Across-the-board application of the above deregulatory options would allow the dismantling of FERC and the repeal of the Natural Gas Act, the Federal Power Act, and the Hepburn Amendment to the Interstate Commerce Act. Another federal statute, the Public Utility Regulatory Policies Act, which mandates that utilities purchase power from "qualifying facilities" at an "avoided cost," is inconsistent with emerging utility competition and should likewise be repealed.

Conclusion

Federal energy policy has always been based on a series of dubious rationales. One is that energy is too important to be left to market forces

alone. The truth, however, is that the more important an industry is, the more imperative is it that it be left in the hands of private management. Another fallacy is that energy generation and distribution are a natural monopoly that necessitates strict government regulation. Economists today recognize that "government failure" is a far more serious problem than "market failure." Monopoly regulation has shown itself in most circumstances to be even more damaging to consumer interests than worst-case scenarios of unrestrained quasi-monopoly practice. Finally, energy security concerns haunt much government regulatory activity, despite the fact that the world is awash with cheap energy and even worst-case distant supply events dictate market management rather than political planning.

In sum, there is no reason to treat energy any differently than any other commodity or service in the economy. Allowing the invisible hand of the marketplace the authority to allocate energy resources would provide massive windfalls to the federal Treasury, reinvigorate the American economy, and institutionalize plentiful and inexpensive energy for generations to come.

Suggested Readings

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