WebMemo
Published by The Heritage Foundation

No. 1927
May 19, 2008

The Good and Bad Approaches to Affordable Energy Policy

Ben Lieberman

Good energy policy is easy to distinguish from bad energy policy: Good policy leads to more supplies of affordable energy, and bad policy leads to less. The recently rejected American Energy Production Act of 2008 (S. 2958), sponsored by Senator Mitch McConnell R–KY), sought for the most part to make it easier to access domestic energy supplies by undoing past constraints, including restrictions on domestic oil production.

On the other hand, the upcoming Consumer-First Energy Act of 2008 (S. 2991), sponsored by Senate Majority Leader Harry Reid (D–NV), repeats the mistakes of the past by adding constraints that will discourage domestic energy supplies, including:

- Raising taxes on domestic oil production,
- Picking winners and losers among energy alternatives, and
- Imposing price-gouging legislation.

S. 2958 was a pro-energy bill, worth pursuing again, while S. 2991 is an anti-energy bill that will only add to already high energy costs.

Fewer Restrictions on Domestic Oil Production. America needs fewer restrictions on domestic oil drilling. The U.S. remains the only oil-producing nation that has placed a substantial amount of its energy potential off-limits. This includes a few thousand acres of Alaska's 19.6 million-acre Arctic National Wildlife Refuge (ANWR). This small proportion of ANWR is believed to contain 10 billion barrels of oil—an amount equivalent to 15 years of imports from Saudi Arabia.[1] Even more oil is located in other restricted areas throughout the United States, and more still in the 85 percent of America's Outer Continental Shelf (OCS) that is off-limits.[2]

Environmental concerns militate against drilling, but improvements in technology have greatly reduced both the above-ground footprint and the risk of offshore spills.[3] Any new drilling would be subject to the world's strictest standards.

The American Energy Production Act allows for leasing of ANWR. This would bring more domestic oil online several years from now and generate hundreds of billions of dollars in revenues. This bill would also allow leasing in most of the OCS, provided the relevant state governor approves. Each participating state would get a share of the leasing revenues generated by energy production. This would provide more oil and more natural gas, which is also badly needed.

Regrettably, the Consumer-First Energy Act contains no such provisions. In effect, it is an energy bill without any energy in it.

Avoiding the Mistakes of the Past. The Consumer-First Energy Act of 2008 might as well be called the Repeat-Every-Energy-Policy-Blunder-from-1970-to-1980 Act. Among other mistakes from that period, the government increased the taxes levied

This paper, in its entirety, can be found at:
www.heritage.org/Research/EnergyandEnvironment/wm1927.cfm

Produced by the Thomas A. Roe Institute for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

on domestic oil producers. The result of this windfall profit tax, according to the Congressional Research Service, was "reduced domestic oil production from between 3 and 6 percent, and increased oil imports from between 8 and 16 percent. This made the U.S. more dependent upon imported oil."[4]

There were also many attempts by the federal government to pick winners and losers among emerging energy alternatives—synthetic fuels, solar, ethanol, and others—and tilt the playing field in their favor. Virtually all turned out to be big disappointments.

The government also instituted price controls, which served only to create the gas shortages that remain one of the unpleasant memories from that era. Yes, price controls meant that consumers could get cheaper gas—but only after waiting in long gas lines and only if stations didn't run out first.

One might think that no rational energy policy maker should want to repeat the mistakes of that era, yet the Consumer-First Energy Act of 2008 tries to do just that. There are new proposals to increase the effective tax rates on U.S. oil companies, both by bringing back a windfall profit tax and by repealing certain deductions against income for expenses related to domestic oil drilling. As happened before, this will discourage domestic oil drilling, which is the exact opposite of what an energy bill should be doing.

The bill allows oil companies to avoid the windfall profits tax if they invest in congressionally approved alternative energy sources. Though renewable energy sources should be a part of America's energy mix, they should be pursued by the private sector without direction from Washington. The federal government has never been adept at picking winners and losers among such alternatives, as the burgeoning problems with the corn ethanol mandate attest.

There are also price-gouging measures, which act the same way that price controls act by trying high prices illegal. Like tax hikes, such measures discourage badly needed supply increases and thus end up doing more harm than good. Even the Federal Trade Commission, the agency charged with implementing this scheme, has warned that it is a bad idea.[5]

Conclusion. It is no coincidence that, despite the massive 2005 and 2007 energy bills, the price at the pump continues upward. Both measures did little to create new oil and gasoline supplies or to untangle the red tape afflicting existing supplies.

America needs fewer laws, regulations, taxes, and other government-created impediments to a more affordable gasoline supply. Most of the provisions in the American Energy Production Act are intended to liberate Americans from that morass. In contrast, the Consumer-First Energy Act of 2008 contains just about everything we don't want or need.

—Ben Lieberman is Senior Policy Analyst for Energy and Environment in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

---

1. U.S. Geological Survey, *Arctic National Wildlife Refuge, 1002 Area, Petroleum Assessment, 1998, Including Economic Analysis*, April 2001, p. 4, at *http://pubs.usgs.gov/fs/fs-0028-01/fs-0028-01.pdf.*
2. U.S. Department of the Interior, Minerals Management Service, *Report to Congress: Comprehensive Inventory of U.S. OCS Oil and Natural Gas Resources*, February 2006, at *http://www.mms.gov/PDFs/2005EPAct/InventoryRTC.pdf*; U.S. Department of the Interior, Bureau of Land Management, *Scientific Inventory of Onshore Federal Lands' Oil Gas Resources and the Extent and Nature of Restrictions or Impediments to Their Development*, November 2006, at *http://www.blm.gov/epca/phase2/EPCA06full72.pdf.*
3. U.S. Department of Energy, Office of Fossil Energy, *Environmental Benefits of Advanced Oil and Gas Exploration and Production Technology*, October 1999, at *http://www.fossil.energy.gov/programs/oilgas/publications/environ_benefits/env_benefits.pdf.*
4. Congressional Research Service, *The Windfall Profit Tax On Crude Oil: Overview of the Issues*, September 12, 1990, Summary.
5. Federal Trade Commission, *Investigation of Gasoline Price Manipulation and Post-Katrina Gasoline Price Increases*, Spring 2006, pp. 196–197, at *http://www.ftc.gov/reports/060518PublicGasolinePricesInvestigationReportFinal.pdf.*