

Energy Policy: SUVs, Energy, and the Oil Economy

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1973

- OCT 8-10 OPEC negotiation with oil companies fail
- 16 Iran, Iraq, Abu Dhabi, Kuwait, Saudi Arabia, and Qatar raise price oil 17%
- Oct 17 Opec agrees to cut exports and recommend embargo
- 19-20 OPEC proclaims embargo against US
- November Embargo extended to Netherlands, Portugal, Rhodesia, South Africa
- Nov 27 Nixon Signs Emergency Petroleum Allocation Act
- Dec 22-24 OPEC Gulf States double+ price of crude oil

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1973 Oil Embargo

- OPEC cuts oil exports (5%/month + 25%) to pressure US. Raises prices.
- Gas prices quadruple. Supply is limited.
- Policy rations fuel; mandates cuts in commercial lighting, limits heating in federal buildings . . .
- Appeal for voluntary efforts to limit consumption.

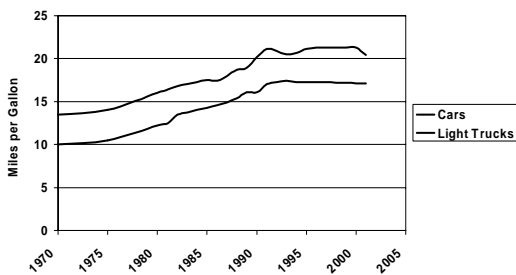
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Response to crisis: "Energy conservation is the moral equivalent of war." J. Carter

- 1974 national 55 mph speed limit
- 1975 Energy Policy and Conservation Act
 - Strategic petroleum reserve
 - CAFE standards
- Other conservation policies promote development more efficient technologies.
- Rapid growth in alternative energy R&D.

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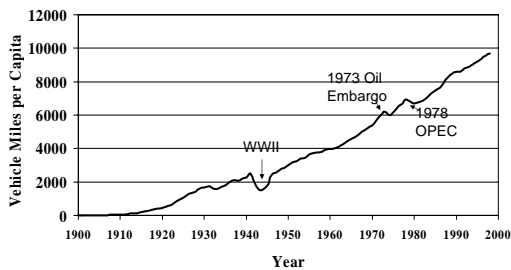
Auto Fuel Efficiency



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Data courtesy of the Federal Highway Administration of the US Department of Transportation.

US Vehicles Miles per capita



9

Data courtesy of the Federal Highway Administration of the US Department of Transportation.

What's the problem with SUVs?

Advocates

- ?
- ?
- ?
- ?

Critics

- ?
- ?
- ?
- ?

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What's the problem with SUVs?

Advocates

- "The only problem is when government interferes in private life."
- "It's my choice whether I make my family safer. Don't complain if you'd rather save a few bucks"
- Vehicles must address the variety of needs that exist in society.
- Not breaking any law.
- "It's my right."

Critics

- It's a "bad bargain for society."
- Wasteful. Dangerous excess. Selfish.
- What's safe for you (and maybe not) is not for us.
- It's immoral. You ignore the impacts your actions have on others. Desire cannot justify military action.
- You're misguided.

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What's the problem with SUVs?

Advocates

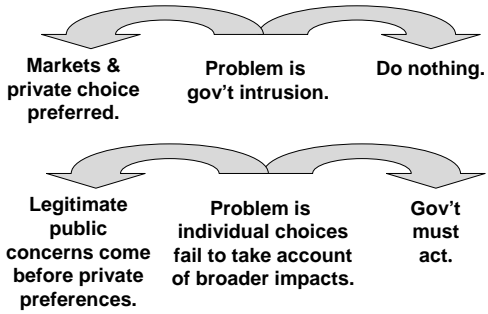
- Individual choice is sacrosanct.
- Society includes different needs and priorities. Choices must be available to each.
- Tastes are not open to dispute.
- No legitimate basis for government intrusion.

Critics

- Wanting is not needing.
- No right is involved.
- Choices that affect others are moral choices. Require actions that are just, fair, responsible . . .
- Safety and security create a legitimate basis for government action.
- Choices misguided.
- False tradeoff.

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2 competing problem frames.



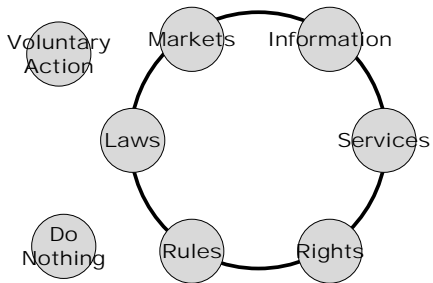
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If government acts, how can/should it act?

What alternative strategies are available that can infuse individual/private choice with public/collective concerns

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Forms of Government Action



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Government Action: Laws & Rules

- Ban SUVs
- Auto Fuel Efficiency Standards
 - Government limits social choices
 - Create pressure for technological development
- Limit gasoline purchases (rationing)

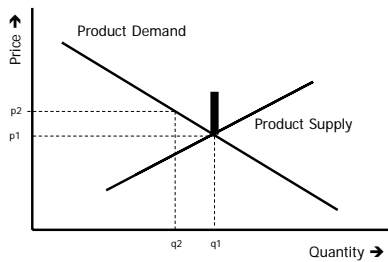
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Government Action: Taxes

- Influence individual choice through market mechanisms
 - “price” as signal
- Diffuse mechanism
- Allows for flexibility
- Revenue to finance environmental/energy programs
- Revenue neutral versus revenue generating

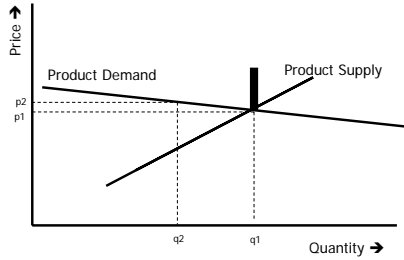
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Taxing Products to Produce Socially Desirable Outcomes



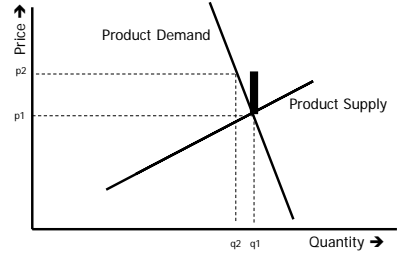
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Taxing Products to Produce Socially Desirable Outcomes (highly elastic demand)



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Taxing Products to Produce Socially Desirable Outcomes (highly inelastic demand)



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Equity & Taxes

- Taxes on Gasoline
 - Greater impact on:
 - Commuters
 - Working families
 - Truckers
 - food costs
- Taxes on SUVs
 - Greater impact on:
 - Wealthy
 - Businesses
 - Large Families
- Can these effects be mitigated?
- Can Taxes be revenue neutral?

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Government Action: Information

- Educate the public on energy use impacts
 - Vulnerability to oil imports
 - Economic policy implications
 - Foreign policy implications
 - Effects on climate and local air quality
- Provide “signals” other than price
 - What might influence consumption decisions?

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Government Action: Property Rights

- Property rights created by government action
 - Intellectual property; Real estate
 - Pollution credits
- Creates scarcity and potential for market transactions
- Rights that are auctioned and traded.
 - SO2
 - Carbon credits
- How could it apply here?

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CAFÉ standards: A mixed strategy

- Rule creates strict requirement enforced through penalties and taxes
- Focus on fleet average allows manufacturers flexibility in meeting standard
- Means open to manufacturers
 - Use incentives to influence consumer choice and offset sales of less efficient cars
 - Educate consumers
 - Technology development: make more efficient cars that are attractive to consumers

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