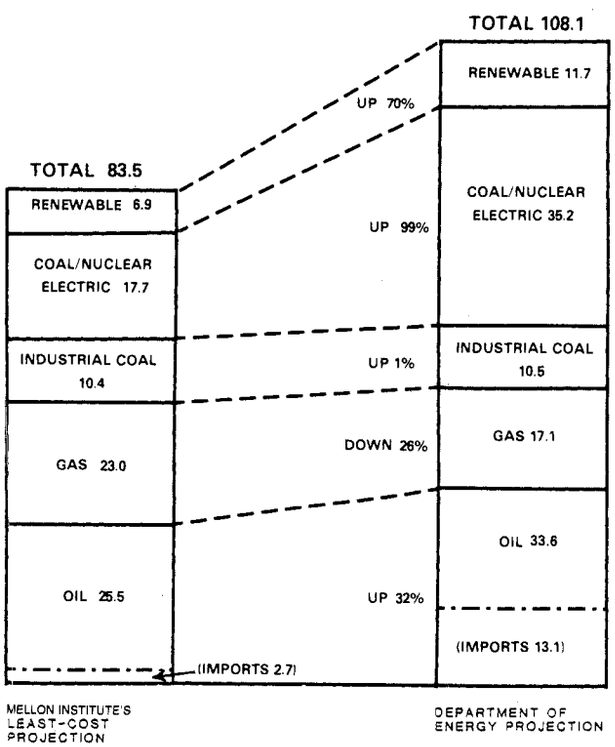
Reagan's Energy Policy and Other "Myths"

If the Reagan Administration were really serious about letting market forces determine energy supply and demand, the United States would consume little more energy in 2000 than it uses now, energy costs would stabilize, and oil imports would drop virtually to zero. The key to this rosy outlook, says a study by the Mellon Institute,* is to regard energy like any other commodity, such as food or metals, and let economics rather than politics guide its production and use.

This, of course, is what the Reagan Administration claims it is doing. But, while it preaches free market ideals, it has increased funding for nuclear power and retained some subsidies for synthetic fuels; it has backed away from its promise to deregulate the price of natural gas; and its chief energy official, Secretary of Energy James Edwards, argues that the way to solve the nation's energy problems is to "produce, produce, produce."



U.S. primary energy requirements in 2000

"The only reason you make all that market intervention is if you think the market is not going to work," says Roger Sant, who directed the Mellon study. Sant appears at first glance an unlikely enthusiast for the free market. As head of energy conservation in the Federal Energy Administration under President Ford, he helped put together many of the regulations governing energy use, and he now says he was "as guilty of furthering the myths (about energy problems) as anyone before or since." The 1979–1980 OPEC price rise helped him change his mind.

Oil prices have now risen to the point where alternative energy sources can compete economically and where investments in more efficient use of energy will pay handsome dividends, the Mellon study argues. As a result, economic forces alone, if given a chance, should hold energy use to about 83.5 quads (quadrillion Btu's) in 2000, compared with about 80 quads today. In contrast, the Department of Energy is forecasting that demand will swell to more than 100 quads. The difference between the two levels of demand amounts to hundreds of billions of dollars, not just for the fuel but also for the facilities to supply it.

The Reagan Administration, Sant argues, has been fooled by the same myths that have guided energy policy since the 1973–1974 Arab oil embargo. Chief among them is the belief that energy is in short supply. The Mellon study concludes that the economic incentives for energy conservation are now so strong that the supply problems can be reduced to manageable proportions. But the Reagan policy rests on the assumption that the only way to meet rising demand is to spur production. "This preoccupation with the supply side of energy is a misconception that could be deadly," argues Sant, for "the economy cannot afford to dissipate capital into noncompetitive market entities." He would prefer to see all subsidies for energy production removed so that investments in energy efficiency can compete on an equal footing with investments in energy supply. This, he believes, would force choices to be made on the basis of cost, and consumers would choose the least-cost way of meeting their energy needs.

Another myth that Sant believes the Reagan Administration has swallowed is that environmental regulations constitute a major roadblock to a healthy energy policy. The Mellon study's analysis was based on the assumption that environmental laws on the books in mid-1981—including the Clean Air Act—would remain in effect, and yet it concluded that this would not pose any real problems. "Athough there is plenty of room for discussion about the costs and benefits of current and future environmental regulations," the study asserts, "current environmental regulations are not a significant barrier to meeting energy service needs." The reason is simple enough: investments designed to reduce energy consumption are far less environmentally disruptive than are investments in energy production.

All this may seem too good to be true, and perhaps it is. The Mellon study does not, for example, deal with the many market imperfections that prevent consumers from choosing the least-cost energy options. Such imperfections include the fact that more than half the household appliances sold in the United States are bought by developers and landlords rather than by those who will use them and pay the fuel bills. It also does not address the equity issues involved when consumers cannot make a least-cost energy decision because they cannot afford the investment needed to make long-term savings.

Nevertheless, the study's central thesis presents an interesting challenge to the Administration. In essence, it is claiming that the Administration would do much better if it began to practice what it has been preaching.

—COLIN NORMAN

**Eight Great Energy Myths: The Least-Cost Energy Strategy—1978–2000* (Mellon Institute, Arlington, Va., 1981).

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