

Energy Independence? Get Real

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February 10, 2007

We've heard a lot of talk on and off over the years of a desire by some for the U.S. to become energy independent. Lately, the talk is back "on." There are several reasons for this, but both political parties seem bent on the U.S. eliminating our imports of "energy" (meaning crude oil imports) by advocating various government programs. Let me warn you . . . I'm a curmudgeon on this one. My view is that right now, this is pie-in-the-sky rhetoric. It makes for a good sound bite, but doesn't correspond to the realities of every day life nor to sound public policy.

One reason I say this is the sheer volume of imports of crude oil. According to the U.S. Energy Information Administration (<http://www.eia.doe.gov/>), U.S. refiners import over 14,000 barrels of crude per day, making up nearly two-thirds of all crude oil used in refining. The disappearance of these imports, even over the course of a few years, would create massive disruptions in the market for refined petroleum products, accompanied by either stunning price increases, vast shortages, or some combination of the two. By seeking energy independence, do our major political parties seek this outcome? I don't think so. To put it simply, there is no viable, near term way to move us to energy independence . . . so let's hear something realistic from our political leadership.

A second reason for my skepticism about energy independence is the following. Is it so bad to be energy *dependent*? If it is, should we also try to rid ourselves of automobile dependence, footwear dependence, vegetable dependence, and trouser dependence (to name a few items that the U.S. imports heavily)? This, of course, is not a sensible suggestion. These "dependencies" simply reflect trade. For every item that we import and are "dependent" on, there is an export of equal value that our trading partners are "dependent" on. Over the years, specialization and trade have enabled individuals to improve their well being immensely. We certainly don't want public policy to stand in the way of that. And, just like other goods, trade in crude oil is expected to be value creating.

Some contend that the market for crude oil has special characteristics that negate the arguments of the preceding paragraph. They point to the instability of nations where much of the crude oil originates and suggest that reliance on supply from this region is unwise. This is a legitimate point, but it fails to account for how markets under free trade can deal with it. Buyers do not treat risky suppliers in the same way that they treat reliable ones. Firms seeking a long-term supply arrangement will avoid risky suppliers (or deal with them only at a discount). Also, these firms face market pressures to insure a steady supply to their downstream customers. Thus, the market provides incentives to avoid overly risky suppliers. No need to tell people to do so.

However, we might ask if there is some national security concern with crude oil imports beyond what individual firms will account for. Perhaps there is, but it calls for measured actions such as the U.S. government's strategic petroleum reserve, not shutting down trade in crude oil to achieve energy independence.

Other issues that arise when discussing energy independence are environmental concerns. Use of fossil fuels tends to cause pollution and, of course, crude oil is a major fossil fuel. Pollution is an important public policy matter, but there is no need for it to be tied to the imports of energy-related goods. It's quite sensible to discourage pollution-creating activities, but it has nothing to do with whether the goods involved are imported. Also, there may be clean, energy-generating technologies that come along in the future, but we should not reject them for the sake of energy independence if they happen to be produced by foreigners. Tying up the debate regarding energy imports with pollution control policy just confuses both issues.

In sum, energy independence is something that simply is not going to happen anytime soon. Doing so would necessitate shutting down international trade in crude oil, causing a host of problems. The electorate would not stand for it. So here's my advice to politicians regarding their energy policy suggestions: Give us some sensible analysis and alternatives. Never mind the grandiose schemes. Get real.

(This article appeared in *Business Lexington*, February 23, 2007.)