

# Oiloholics Anonymous

It's difficult to decide which is more depressing: the goal the president has set to cure us of our "addiction" to oil, or the prescription he has written to help us kick the habit. In his State of the Union address President Bush set as his goal the replacement of some 75 percent of the oil we import from the Middle East by 2025. Since about 17 percent of our imported oil comes from that volatile region, that would mean reducing total imports by a bit less than 13 percent, although from what base—current consumption, or consumption in 2025—is unclear.

Unfortunately, the oil market doesn't work that way. Unless we target Middle East producers with quotas, probably a violation of World Trade Organization rules, any import reductions will come out of the hides of higher-cost producers, not the Middle Eastern countries. Furthermore, our European allies, who made their reserves available to us during the supply interruptions caused by Katrina, would remain dependent on imports from the Middle East. And our reduced use would probably be offset by increased demand from China and India, diluting any effect the proposed cutbacks would have on the price of crude oil.

But let's not be churlish. President Bush at least avoided the grandiosity of Presidents Nixon and Carter,

both of whom promised to end completely our dependence on imports. And he abandoned the unrealistic notion that we can feed our petroleum cravings with homegrown rather than imported oil, by gearing up domestic production in Alaska, the Rockies, and elsewhere. That concession to reality can't have been an easy step for a Texas oilman to take.

So let's concede that we should indeed attempt, in the president's words, to move "beyond a petroleum-based economy," or at least to meet his import-reduction target. Unfortunately, the president has chosen to travel a well-worn path that any conservative should avoid. We are to have a series of government investments in alternative technologies: \$281 million already targeted for clean coal technologies is to be sped up; \$54 million will be spent to develop emissions-free coal plants that capture and store carbon emissions; \$148 million

devoted to a Solar America Initiative; \$44 million for wind energy research; \$150 million to help develop bio-based transportation fuels from agricultural waste products such as "wood chips and stalks, or switch grass."

There are more bits and pieces, but you get the idea. The president has stolen from his father's new friend, Bill Clinton, the idea that sprinkling relatively tiny bits of money over a long list of projects creates the impression of



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real action. Perhaps we are lucky that the president didn't propose to spend even more on these projects, for they all share a fatal flaw: They may be little projects, but they reflect big-government thinking. The central planners in the Department of Energy decide which technologies hold the greatest promise, and spend taxpayers' money to find out if they can do a better job than markets in allocating resources to technologies that just might yield alternatives to oil.

We are not dealing here with John F. Kennedy's decision to develop technology to take us to the moon. There was no market for such trips. Energy is different. There is no reason private-sector entrepreneurs cannot develop alternatives to oil—if the price with which they are competing is certain enough, and high enough to reflect the risks to which our supposed addiction is exposing us. Unfortunately, it isn't.

One reason alternatives to oil for transportation have not developed is that investors and potential innovators know that if they do come up with a product that competes with oil at anything like current prices, the Saudis,

who can produce the stuff for around \$5 per barrel, can always lower the price and wipe them out. The other is that consumers are not really "addicts." They are rational. Even at current "high" prices, gasoline is still the best buy if you want to power a vehicle to work. Yes, hybrids are finding a niche among greener motorists and in Hollywood. But technologies that can really make a dent in gasoline-powered vehicles are not yet with us.

Wood chips and switch grass may one day be the answer. But history suggests that bureaucrats are not quite as good at picking winners as is the market. The president would have done better to set a floor under oil prices, with import fees if prices fell below a certain level (\$35 was talked about by the speech's drafters), or to impose a levy on oil imports. The revenues need not end up as congressional earmarks; they could be used to lower other taxes such as the payroll tax, which is a tax on jobs. Then let the great American entrepreneurial genius, the praises of which the president often sings, go to work to develop technologies that can replace oil.

—Irwin M. Stelzer, for the Editors



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