

The Pro's and Con's of Romney's Energy Plan

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A great deal of ink has been spilled by commentators, journalists, and policy wonks since the release August 24th of presidential candidate Mitt Romney's energy plan. This under the microscope examination is justified because abundant, relatively inexpensive energy has proven critical time and again to jump starting and sustaining economic growth. As Rob Bradley, founder of the Institute for Energy Research has stated, "Energy is the Master Resource." And as the Romney camp has been at pains to point out over the course of the campaign, reliable, cheap energy has become increasingly scarce under the Obama administration's "all of the above (as long as it's not fossil fuels)" energy strategy.

Compared to President Obama's anti-energy plan, candidate Romney's plan is a clear winner. However if I were grading it, I'd give it a **B**.

Benefits: As Governor Romney recognizes it is well past time that we opened additional areas to off-shore oil production and beginning in Virginia seems right since the state has asked to have its offshore areas open to new production. After the oil and subsequent jobs and revenues from new production flow into the state, other states will likely want to get in on the bounty. Enticing states with a share of the offshore royalties as has been proposed in the past would also help.

Romney's plan turn over the responsibility for managing public lands energy production to the states within which they are found is a great, innovative idea. Only political hacks and pure partisans could say it's a giveaway to the oil and gas industry since it also states the right to develop renewable resources as well as fossil fuels.

He should extend this plan further still and give states the right to manage all the natural resources on public lands within their borders. Doing so would tie the development and accountability for the use of these lands to the decision makers and the people most affected by such decisions. As a rule, the more closely the benefits from good decisions and costs from bad decisions are visited upon those directly responsible, the better we can expect those decisions to be. Such a system would also set up competition amongst the states with different resource management models being tried in different states or even public lands within a state – overtime, given similar incentives, one would expect better management regimes to triumph over worse ones.

Romney is also right to end the wind energy tax credit and renewable grant and loan programs, but he should go a step further. He should also all energy subsidies for a truly level playing field. He shouldn't give

environmentalists the talking point that fossil fuels get subsidies too. This would allow the market to truly function to deliver the most efficient, lowest cost energy to the public.

Costs: In contrast to Romney plan, energy neutrality should also extend to investment in energy research thus avoiding public dollars being wasted on government promoted blind alleys.

Finally, Romney insistence on continuing the insupportable renewable fuel standard (the federal ethanol mandate) which turns food into costly, inefficient fuel, is a real weakness of his plan. This is arguably the most ill-conceived energy subsidy in existence. I understand the politics, but the only people who truly benefit from this are the farmers, distillers and blenders. The rest of the country and the world is harmed. The RFS contributes to higher food prices, in some countries shortages of basic food stuffs, harms the environment, increases water use – especially bad in drought years, decreases fuel efficiency and in some circumstances damages vehicles themselves.

Looking just at the economics, the economic impact of ethanol subsidies is negative. One report by the U.S. Agriculture department determined that every \$1.00 spent subsidizing ethanol costs consumers more than \$4.00. There are several reasons for this. First, every bushel of corn devoted to ethanol production leaves less for human consumption and animal feed – thus people pay more corn, beef, poultry and pork than they would absent the subsidies. And prices for other goods are also higher since farmers, in pursuit of lucrative subsidies, devote more acreage to corn rather than other, unsubsidized, produce.

Adding to these costs, because ethanol absorbs water, it cannot be shipped through existing pipelines used to transport unblended gasoline – the water it absorbs could separate causing pipelines and fuel lines to freeze, and perhaps burst, during cold weather and makes engines run less efficiently.

Like so much of the pork Congress bestows upon special interests, ethanol is bad for the economy, bad for consumers and bad for the environment.

In short, Romney put forward a better than average energy plan, but it could be better still. A truly visionary plan would unleash the power of the markets and competition in all areas of energy production and delivery, allowing the Bill Gates's and Steve Jobs's in the energy arena to innovate our country's way to a brighter future without the market distortions inherent in government's picking winners or losers via subsidies and mandates.