

## The New Politics of Oil Abundance

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*Lee Lane*

THE OIL-PRICE SHOCKS of the 1970s and '80s marked the dawn of the modern era of United States energy policy. Presidents Nixon, Ford, and Carter all responded to those shocks by launching big programs that promised a rapid switch from oil to other energy sources. Every president since has pledged to chart a similar transition, although the fervor with which these pledges have been pursued has sometimes ebbed perceptibly during periods of low oil prices. The goal of reducing oil dependence, in general terms, remains bipartisan.

Over time, environmental concerns have gradually gained prominence as a rationale for measures meant to decrease U.S. reliance on oil. It was the first President Bush who took the large step of signing the UN Framework Convention on Climate Change, which set global, long-term goals to limit greenhouse-gas concentrations and anthropogenic climate change. Most recently, President Obama has poured billions of dollars into deploying “green energy” concepts, imposed stringent new energy conservation standards, and hobbled drilling for oil and gas with an array of new mandates and controls.

Environmentalists had long hoped that a depletion of domestic oil supplies would force Americans to turn to renewable energy, despite its major flaws and steep price tag. For a long time, it appeared as if their wish might come true. U.S. oil production had been falling, seemingly inexorably, ever since the 1970s. Then, in 2009, the trend in domestic oil production reversed. By 2014, U.S. crude-oil output was 73% above its

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2008 level—an increase that came in spite of drilling bans that caused major declines in outputs in Alaska, California, and, after the Deepwater Horizon oil spill, on the Outer Continental Shelf.

The surging output of tight oil (sometimes called shale oil) is the main source of this new supply. New techniques, notably horizontal drilling and advanced hydraulic fracturing, have unlocked oil from tight rock formations; before these technological innovations, such “tight” oil could never have been extracted at a profit. The surge in tight-oil and natural-gas output might have been greater still were it not for bureaucratic obstacles that have greatly impeded drilling on federal lands.

The resulting onshore oil boom has yielded widespread benefits for the country as a whole. The President’s Council of Economic Advisors estimates that rising oil and gas output has been lifting America’s yearly gross domestic product growth rate by about 0.2 percentage points. More domestic oil output has reduced imports and improved terms of trade for the United States. Moreover, between June 2014 and January 2015, crude-oil prices fell by almost 60%, largely as a result of the surging U.S. supply. Lower world crude-oil prices are likely to produce further gains in America’s GDP.

The turnaround in domestic oil production is the closest thing to an energy revolution to occur since 1973. The new oil boom has transformed the political landscape around energy policy. Yet it has also sparked a fierce new policy debate. The stakes in this debate are high, and it is being waged with much heat, but clear logic and sound evidence have both often been in short supply.

#### OIL-IMPORT DEPENDENCE

Despite the oil renaissance, the United States continues to import a lot of crude oil—actually, more than it did in the 1970s. Before the 1973 oil-price shock, the United States imported about 20% of the oil it used. Today, it imports around 30%. Since Washington has never defined oil independence or chosen a metric by which to gauge progress toward it, the concept has always been vague and subjective. But, if independence means zero net imports, the United States is farther away from it than when the quest began.

The 1973-1974 Arab oil embargo seared the notion of oil as a weapon into the American psyche. In reality, though, oil embargoes were an unwieldy strategic tool in the 1970s, and they are even less reliable now.

Crude oil is a largely fungible commodity, and it has become very cheap to transport in bulk. As a result, there is one unified global market. Therefore, an exporter wishing to embargo a specific state or group of states cannot prevent supplies from reaching the targeted countries. It can cut back only its own export levels, which is costly to the state imposing the embargo, while oil importers as a group allocate the shortfall either through the market or through trade policy. Thus, the 1973-1974 embargo failed to achieve any of its policy goals. And although some American pundits still talk about the “oil weapon,” the failure in 1973-1974 taught the Arab exporters just how clumsy it really is. They have never again tried to use an embargo as a tool of foreign policy.

Supply disruption from war, domestic unrest, or chance events is at least somewhat more worrisome than embargos. Such disruptions can trigger oil-price volatility, which appears to be greater now than it was during the long, mostly stable years between the late 1980s and the 1990s. Within just the last seven years, prices have collapsed twice. Between the downturns, the price soared 275 percentage points above its 2008 floor. At present, low crude-oil prices are exacerbating unrest in key supplier countries like Iraq, Libya, Nigeria, South Sudan, and Venezuela. If unrest curtails production in one or more of these major suppliers, world prices could again spike, at least for a while. Conversely, should the Iranian and Russian sanctions be lifted, or should their effectiveness erode, global oil supplies will rise — albeit with a time lag. All else remaining equal, prices will fall.

Since oil-price spikes have depressed U.S. GDP growth rates in the past, they do pose some level of threat, but the scale of the threat is well below that which prevailed in the 1970s. Note that Washington responded to the 1970s oil-price spikes by capping energy prices, rationing fuel, and allocating oil and gas by administrative fiat. These policies greatly amplified the social costs of the supply shortfalls. Clearly, Washington could greatly diminish the harm of a future price spike by simply eschewing such measures. Hoping that government has learned from its past mistakes is always risky; still, the policy responses to more recent oil-price spikes have been far less harmful than those of 40 years ago.

The U.S. economy has also changed in ways that lessen its vulnerability to oil-price shocks. It is now only about one-third as oil intensive as it was at its peak in the mid-1970s. Also, Federal Reserve policy changes since then have weakened the link between commodity prices and

recessions, buffering the impact of price spikes on the broader economy. And the United States, like other major nations, now holds a strategic petroleum reserve that it could tap in a severe supply shortfall. As a result, even though the United States imports a greater proportion of its oil today than it did in 1973, it is in a stronger position to respond to changes in the global oil market.

The U.S. tight-oil revolution is merely one more step in this trend toward decreasing exposure to oil-price shocks. U.S. tight oil is not going to displace all that much OPEC production. It is too expensive to produce for that to happen. By one estimate, in 2013 U.S. tight-oil producers used 20% of the global oil industry's capital spending to produce just 4% of its oil. It follows, then, that as world oil prices have fallen, investment in U.S. tight-oil production has rapidly contracted, and U.S. output growth is likely to hit the pause button soon. Many drilling rigs have already been "stacked" in storage and workers laid-off.

From the standpoint of defending against future oil-price shocks, current output matters less than the tight-oil producers' nimbleness. As long as U.S. drillers retain access to large stocks of human, financial, and physical assets, if there is a lasting rebound in oil prices, U.S. oil output will begin to rise. And it is likely to do so swiftly. The lead times for drilling wells for tight oil are a fraction of those needed for deepwater offshore wells. Partly as a result of this factor, U.S. onshore drillers can ramp-up output with stunning speed. In 2013, according to BP statistics, U.S. crude-oil producers achieved the largest increases in output ever made in a single year in this country. The next year U.S. oil output grew faster still. The tight-oil revolution is like having, free of charge, a fillip to the U.S. Strategic Petroleum Reserve. After a new global oil-price shock, there would probably be a lag before tight-oil output growth could regain momentum, but tight oil's surge capacity would be of the greatest value in just the sort of worst case, long-lasting supply shortfall about which we have worried the most.

Economists Stephen Brown and Hillard Huntington, in a 2013 study, found that U.S. vulnerability to oil-price spikes was modest. According to their findings, which were reached before the full implications of the tight-oil boom were evident, adding a mere \$5 per barrel (in 2010 dollars) would cause its price to equal its full non-environmental social costs. For perspective, in May 2015, the price of the widely traded Brent Crude, which is roughly equivalent in quality to U.S. tight oil, stood at about \$65

per barrel, so a \$5 per-barrel increase would involve a less than 8% rise in price. The demand for crude oil is notoriously unresponsive to changes in price, so one must infer that, if the volume of U.S. oil imports exceeds socially optimal levels, it does so by only a very narrow margin.

Other observers have purported to find other grounds for thinking that government should adopt measures to suppress U.S. oil use. Some, for instance, have claimed that lessened U.S. oil use would allow Washington to cut back on defense spending in the Persian Gulf. But by gaining control over those reserves, a rival world power such as Russia or China would be able to acutely threaten U.S. global pre-eminence, and even the rise of a regional hegemon such as Iran would sharply diminish U.S. power and prestige. Washington will likely oppose such an outcome regardless of the level of U.S. oil imports or oil use.

Other proponents of anti-oil-use policies contend that such measures could lower world oil prices and counter the OPEC sellers' cartel. OPEC, however, patently no longer controls world crude-oil prices. Its market share is down, and its members differ widely in their preferences over price and output levels; indeed, some members are mortal enemies. The Saudis have learned that cutting their own output to bolster oil prices merely invites other OPEC members to cheat on their quotas and filch the kingdom's market share. In effect, OPEC is a cartel the members of which can no longer collude, either openly or tacitly, and which, therefore, has lost much of its control over price.

#### CLIMATE FEARS

As valid concerns over oil security have receded, concern over the environment has gained prominence in U.S. energy policy. That the earth's temperature is rising seems indisputable, and a causal connection between greenhouse gases released through the use of fossil fuels and global warming only makes sense. Rising concentrations of greenhouse gases in the atmosphere will, over time, change both global and some regional climate systems, although we are far from knowing exactly how. Some of these changes will likely benefit society; some will impose costs. The faster climate changes and the larger the changes are, the more likely it becomes that net costs will result.

Environmentalists have been agitating for government action on climate change for some time, and recently a few oil companies have begun to echo these calls. For example, the CEO of Royal Dutch Shell, a large,

EU-headquartered energy company, called for the oil industry to promote policies that would put a price on carbon emissions. A few center-right U.S. think tanks—the industry’s natural allies on drilling—have also expressed support for a carbon tax or similar policy tool. What’s more, some upstream oil and gas firms have agreed with some “moderate” green groups on rules governing tight-oil and gas drilling practices.

Some industry players may believe that the political and public-image gains that might be made from striking bargains with “moderate” green groups are worth the costs. Within the industry, views differ on the prudence of such accords; the merits, no doubt, vary from case to case. In truth, however, from the standpoint of good public policy, there is little reason for the industry to accept the restrictions that the political left is proposing. Restricting tight-oil extraction, the environmental movement’s prime demand, would slow greenhouse-gas emissions hardly at all. The International Energy Agency estimates that oil use causes about 35% of global fuel-related carbon-dioxide emissions, and in 2013, U.S. tight oil was about 4.3% of world crude-oil output. So, had all U.S. tight-oil output been stopped at once and not been replaced by any other source—both highly implausible assumptions—the result would have cut global carbon-dioxide emissions by all of 1.5%. For perspective, in 2013, global energy-related greenhouse-gas emissions, according to BP’s energy statistics, grew by 2.1%. Hence, the growth in global emissions would have cancelled out the savings from ending all U.S. tight-oil output in less than nine months.

Putting a price on carbon emissions, another long-held demand of the environmental movement and the political left, is also misguided. One could conjure up a set of hypothetical conditions under which a carbon tax might make sense. In the real world today, however, none of those conditions are applicable, in part because the United States, acting on its own, can do little to reduce global greenhouse-gas emissions. The U.S. share of total emissions is down to about 16% and sinking steadily. China is already the largest emitter, and its share, as well as that of the other large, middle-income economies, is growing. These non-OECD countries’ fossil-fuel reserves are also large. Greenhouse-gas control in the United States cannot halt climate change unless China, Russia, India, and Brazil, and at least a few others, concert abatement plans with the OECD countries.

Instead, these large, middle-income states staunchly refuse to adopt any emission cuts except those that also reduce more urgent local pollution

problems, save money, or provide some other benefit. Middle-income countries reject greenhouse-gas abatement measures because such policies would impose hefty upfront costs but will not pay dividends for at least a half century—if they ever do. Even then, any benefits will be diffused around the globe. In contrast, expanding fossil-fuel use offers GDP growth in the here and now. The added wealth will provide the wherewithal to adapt to climate change. It is also often essential for allowing the current elite to hold onto political power, which in these countries can be a goal that entails much higher stakes than it does in OECD countries. These countries, then, will maintain their current climate policies for the simple reason that it is rational for their ruling elites to do so.

Even if world leaders were somehow to reach a consensus on the principle of a global carbon tax, corruption in China, India, and many other high-emitting countries would subvert it in practice. (Beijing and Moscow are largely immune to frothy moral rhetoric anyway, whatever its source.) The upshot is that effective greenhouse-gas abatement will come only after middle-income countries become much wealthier. A hefty rise in atmospheric greenhouse-gas levels is, therefore, already certain. How much the climate will change and in just which ways remain to be seen, but American preaching about emission control is not going to have much effect on the climate.

Nevertheless, the Obama administration's position on the value of abating greenhouse-gas emissions shows that it is disregarding the lack of reciprocity on emission controls. In setting regulatory standards for U.S. greenhouse-gas control, Washington should set the value of an increment of emission abatement as roughly equal to the harm that the avoided emissions would cause to the United States. A 2010 U.S. inter-agency report noted that one of the most widely used models of climate-change economics, the FUND model, found that U.S. damages from an added metric ton of carbon-dioxide emissions were only 7% to 10% of the global total. Yet the Obama administration, at the behest of environmentalists, chose to use the full global damage in valuing U.S. abatement. In effect, it set the value at nearly 12 times the model's estimate; the inflated value could then be used to justify excessive abatement costs. This is not environmental protection; it is foreign aid.

Nor is it efficient foreign aid. The most valid humanitarian concerns about climate change center on tropical countries that are poor and poorly governed, and environmentalists often claim that helping

people in these countries is a big part of their reason for wanting to halt climate change. But the poorest countries are also typically net importers of oil. They are, therefore, among those places now benefiting the most from the oil-price plunge that was brought on mostly by U.S. tight-oil production. Or, to turn the point around, ending the U.S. tight-oil boom—which would cause oil prices to rise again—would hurt the very countries about which environmentalists claim to be most concerned.

This reality demonstrates a crucial aspect of the environmental movement's ethics: For the most part, except when political expediency compels the greens to value economic welfare, they do not. In some cases, they actually see future net costs to the United States as just deserts for morally culpable past greenhouse-gas emissions. Indeed, the worldview of many environmentalists is deeply Manichaeic. In this view, greenhouse-gas emissions are not just a market failure of fossil fuels; they are a moral failure. And they are worse than a threat to mankind. They are a threat to what is, to the movement, of higher value: nature.

If, in contrast to the greens' viewpoint, one considers climate change in terms of human welfare and U.S. national interest, the United States is well positioned to adapt to a changing climate. The country commands vast stocks of human, physical, financial, and natural capital. These resources will allow it to adapt, to lessen the costs of change, and to repair those harms that cannot be avoided. Then, too, the U.S. climate is mostly temperate, meaning climate change is likely to bring benefits in the coming decades as well as costs. Furthermore, the United States is big enough to span a wide variety of climates, and its population is mobile enough to move among them in response to gradual change. And because the U.S. government and economy are relatively well run and free, unlike in many other places in the world, the country is more likely to adjust efficiently to a changing climate than are its more corrupt and incompetent peers.

It is not, therefore, in our national interest to seek to cut back on oil use, and it makes even less sense to curtail tight-oil production. Any attempt we made would make little overall difference, and it could actually hurt many people in the short term much more than it would help them in the long term.

#### SURGING LOCAL OPPOSITION

Opposition from local communities, not climate change, is the more potent political force behind proposals to curtail drilling for tight oil.

Domestic oil production entails environmental costs, and these costs fall mostly on the communities where drilling takes place. Modern drilling is noisy, and it can contribute to air and water pollution. It also requires more public spending on roads, water systems, waste disposal, police, fire, and other services. Furthermore, for most American households, the home is by far the most valuable asset. As economist William Fischel has observed, land-use changes can affect nearby property values, so residential owners are acutely sensitive to land-use changes neighboring their properties. When they sense a threat, they respond fiercely, and drilling, while it definitely raises the value of some properties, can drive down the value of others, especially those that rely on water drawn from private wells.

Most of the news coverage of onshore oil and gas drilling echoes the environmental lobby's main messages of fear and pervasive public nuisances, and the industry is not well positioned to refute such claims. A recent Gallup survey found that the public gave the oil and gas industry a favorability rating of net -27%, which was worse than even the legal field and health care, both at net -9%. Only the federal government exceeded the negative rating of oil and gas.

The trend, therefore, is toward greater resistance to increased use of hydraulic fracturing. In March 2013, a Pew Research Center poll found that the public supported its expanded use, 48% to 38%. Yet, by September of that year, support flipped, with 49% opposed to its expanded use and only 44% supporting it. Another poll done in November of 2014 found the gap between opposition and support had grown slightly, with 47% opposed to expanding the use of hydraulic fracturing and 41% in favor of it.

Climate concerns are not likely to be the driver of this trend. Over a number of years, Gallup poll results have repeatedly shown that, although most Americans believe that man-made climate change is occurring, only a small percentage is very concerned about it. The rather small minority that is most alarmed seems unlikely to give oil producers much credit for good deeds to the global climate. Rather, it is local costs that drive the opposition to domestic oil production.

Yet the overarching narrative that local costs exceed benefits cannot withstand careful scrutiny. Resources for the Future, a center-left environmental think tank, recently surveyed a diverse group of experts about the local effects of shale-gas development. The 215 respondents

judged the net effects to be positive by a margin of more than two to one. While a majority of experts from NGOs dissented, majorities from each of the other three categories — academia, government, and industry — judged the results to be positive.

The results of empirical research, while somewhat mixed, broadly support the expert assessment. Some preliminary results in states where drilling has boomed suggest both income and employment are likely to increase — although non-residents fill some key jobs, making income increase more than employment. On net, local property values also rise. Historical studies of past oil and gas booms suggest that net gains persist over long periods of time.

What's more, the oil industry has taken steps to limit the amount of local damage caused by its activity. The first stage of the U.S. oil boom unfolded amid high oil prices and lax regulation. Firms were in the process of learning the new production techniques, and there can be no doubt that some places suffered real harm from errors and sometimes from negligence. But now, better geologic knowledge of major tight-oil fields, better rigs, and better drill bits are increasing the yearly oil output per drilling rig and per well, reducing the total number of wells that must be drilled. Firms now drill multiple wells from a single drilling “pad,” which allows them to reach a large amount of oil from a small above-ground area, and drilling rigs can bore multiple wells without being disassembled and reassembled, a recent innovation. These improvements do not just save money; they also reduce noise, truck trips, and other land-use effects. And increasingly, the water used in hydraulic fracturing is recycled; these changes lessen water-pollution risks, public water-treatment costs, demands on water supply, and truck trips. New water pipelines further reduce truck travel.

Yet, for all of those improvements and the reality of local benefits, non-trivial social costs persist, even if they are outweighed by gains. Drilling still requires high-volume materials flows. Then too, while the recent oil-price slump eases some of the problems from intense drilling, it also raises new concerns about shrinking state and local tax revenues and rising unemployment rolls caused by idled drilling rigs. Local political battles over tight oil are not about to disappear.

#### STATE AND LOCAL POLITICS

Largely because of these costs, much of the political action on tight oil has taken place at the state and local level. Over 450 local governments

have, under the guise of banning fracking, effectively banned most drilling. Several states have done the same, New York being the biggest among them. Numerous bans in other places have been attempted but ultimately failed. Environmental groups have also sought to raise the cost of drilling by abusing laws intended to involve communities in decisions about infrastructure development.

Those who support expanded drilling and economic growth have responded to the local bans in a number of ways. The most common has been state pre-emption of local drilling bans. Because the benefits of drilling are more diffuse than the costs, local governments are apt to support bans that would cause net harm to the state as a whole. State governments, then, are in a better position to make socially optimal decisions than are localities, and state pre-emption has sometimes worked as a strategy to encourage drilling. The Ohio Supreme Court recently ruled that state law pre-empts some local drilling bans. The Texas legislature has passed a law limiting local home rule over drilling. In Colorado, a state commission has submitted a package of proposals meant to redefine the state and local authorities over drilling.

Nonetheless, state pre-emption as a strategy obviously has its limits. In New York, the state legislature is preventing several southern towns that would like to allow drilling from doing so. Nor will other left-leaning states like California ever pre-empt local bans, and in Colorado, despite the commission's recommendations, pro-drilling forces expect to have to withstand a state-wide ballot initiative in 2016.

Some states are also weighing measures that are less extreme than outright pre-emption. State legislators in both Colorado and Texas have introduced bills recently that would require localities that ban drilling to compensate owners for the lost value of their mineral rights. This approach partly corrects for the uneven incidence of the local costs and benefits of drilling. Such measures would still allow towns or counties to ban drilling. But few bans would occur unless most local voters expected that drilling would cause nuisances that would cost them more than compensating their neighbors for the lost value of their mineral rights. A rule of this kind might produce the most socially optimal outcomes that can be hoped for given the constraints of democratic decision-making and positive transaction costs.

Without full or partial pre-emption by state governments, local opposition presents drillers with an economic dilemma. One way or

another, they must “buy” a local “social license to drill”—that is, they must find the means to ward off drilling bans or prohibitively costly mandates. In fact, drillers sometimes do compensate towns for some of the social costs of drilling, and they have found that targeting money or in-kind payments to redress expected harms helps to amplify public support. Local governments, therefore, can seek payments for local road repairs or for enhanced water treatment from drilling companies in exchange for the right to access tight oil and gas.

Indeed, a recent study of Eastern and Midwestern shale formations shows that where local governments have more taxing powers to extract revenue from drilling, they become less likely to ban hydro-fracturing. The study supports the common-sense surmise that the extent of a government’s fiscal stake in drilling affects its regulatory preferences.

#### COMPETING SIDES

Plainly, the U.S. oil renaissance entails policy issues of great moment, and it is evident as well that some options for governing upstream oil are much better than others. Yet the politics of oil still follow the logic of politics, and in the United States that implies a battle between two or more rival coalitions. In this case, the pro-drilling coalition consists of the oil industry, its suppliers, and the industrial consumers of its products. The anti-drilling coalition is composed of the green lobby and its foundation and mega-donor funders. Rival penumbras of public officials, scholars, pundits, and journalists are more or less tightly aligned with one or the other of the two sides.

The strengths of the two coalitions are asymmetric. Campaign donations by investors and through PACs are a key resource in American politics. They are particularly vital to capital-intensive firms like those in oil and gas. The producers’ technical expertise is also a source of strength. Although the environmental movement’s mega-donors represent a major source of political funds, and some of its lobbyists and lawyers are knowledgeable and competent, the industry is stronger in these dimensions of power.

In other respects, though, the pro-drilling coalition is disadvantaged. Notably, the green groups’ grassroots base, even though somewhat uneven, is far more national in scope than is the upstream oil industry. Indeed, the industry’s geographic base is extremely narrow. Just 11 states and the Outer Continental Shelf account for 96% of all U.S. crude-oil

output, and these same states plus Arkansas and Pennsylvania are also the main producers of natural gas. Where onshore drilling is taking place, it has won the industry new allies among mineral-rights owners, truckers, the hospitality sector, and other local interests. At the same time, the local issues that have shadowed the surge in tight-oil and gas production have elicited almost as much enmity as support.

With respect to national policy issues, the industry broadens its base by appealing for support from a widely geographically dispersed array of suppliers and industrial customers. The tight-oil and gas boom has led to both increased output and greater demand for inputs, and this growth has allowed the upstream industry to expand and deepen its political ties with its commercial partners. Those ties, in turn, connect the industry to holders of elective office from communities in which its suppliers and customers are based. The rise of tight oil, therefore, has strengthened the industry's call on these political resources, but the upstream industry's hold on these resources remains limited by its relatively small size. At present, upstream oil and gas represents slightly less than 2% of GDP, which is down from around 4% in the early 1980s.

The environmental lobby has its own formidable strengths. The greens have had great success in exploiting the valid local concerns and industry failings to stoke grassroots resistance to drilling. In today's highly partisan and polarized politics, the green movement is a part of the Democratic Party's base. Therefore, in Washington, all else being equal, the default stance of most Democrats, though not all, tilts against drilling. Conversely, oil and gas producers, despite some hedging, broadly support the Republican Party, which tends to favor drilling.

On balance, the partisan alignment favors the anti-drilling side. The executive branch controls the initiative on upstream oil policy, as the examples above of the Obama administration's regulations demonstrate. Demographic trends seem to suggest that the Democratic Party's edge in the contest for control of the White House is likely to grow. Consistent with most Democrats' anti-oil bias, after an early period of relative restraint, the Obama administration has been moving cautiously but relentlessly to impose new limits on upstream tight-oil production. Drilling on federal land is a case in point. The rate of drilling there lags far behind that on private and state land. According to the Department of the Interior's Inspector General, part of the reason is that the Bureau of Land Management has been slow and inefficient

in approving applications for permits to drill. But instead of first correcting the problem, the Secretary of the Interior has now proclaimed a new, more restrictive set of regulations governing hydraulic fracturing, regulations that mostly duplicate and sometimes confuse state controls.

The administration is also weighing potentially costly new Clean Air Act regulations and has just enacted new Endangered Species Act mandates that threaten to curtail oil and gas output. In both cases, the statutes under which the standards are being proposed largely exempt the new measures from cost-benefit tests. In limiting such tests, previous congresses favored the use of needlessly costly standards. And even were the statutes not biased, most of the federal agencies that regulate drilling are heavily staffed by environmental zealots who are closely allied with the anti-drilling forces.

#### PROSPERITY AND SECURITY

Viewed as a whole, U.S. energy policy has been costly. Economist Peter Grossman estimates that between the 1970s and 2013, Washington spent over \$200 billion in energy R&D. And the resource costs of the many mandates meant to stimulate use of rival fuels or to save energy are likely much greater than that.

After all this expense, in a wide range of uses, oil is still a better fuel than any of the alternatives. The supply of oil, for instance, vastly exceeds that of the most widely used U.S. substitute, which is corn-based ethanol. Oil is cheaper and safer to produce, to transport, and to handle. It is denser, making it far superior as a transportation fuel. Greenhouse gases emitted are roughly the same, and oil places less stress on water supply than does the thirsty U.S. corn crop. Finally, oil enjoys a vastly superior legacy of human, physical, and institutional capital already invested in networks built to produce, move, and market it.

Despite these advantages, oil use and now the domestic production of oil with fracking remain under heavy assault. The president and his administration have made life difficult for the industry, but it is state and local governments that pose the greatest threat to the domestic oil boom and its promise of further benefits for the country. And while some companies have figured out ways to pay for a “social license” to drill, with oil prices in the doldrums, the economic rents from which they expect to cover the price of the license are now much smaller.

While Washington probably cannot do much to affect the costs of local social licenses to drill, a president who was interested in lifting energy supply could readily increase drillers' ability to pay the price needed to buy local assent. Currently, U.S. tight-oil producers are paid less for their oil than foreign producers receive for crude oil of comparable quality. This price gap lowers the number of wells that are likely to repay the expected drilling and operating costs.

The price gap stems in part from inefficiencies in the U.S. oil-transport system—some of them policy induced. But it is also partly a result of the U.S. ban on most crude-oil exports. Ending that ban would open a path by which U.S. tight oil might fetch higher prices from foreign refineries than they now receive at home. Domestic crude-oil output would likely rise, and world crude prices (and those of U.S. oil imports) would slightly decline. Worldwide, the match between crude inputs and refinery capacity would improve, raising the efficiency with which global refining capacity is used. A number of recent studies project that the net effect would be to lower U.S. fuel prices at the pump.

The climate-change movement would no doubt oppose this national policy shift, but it would help domestic oil producers assuage the concerns of local communities while strengthening domestic oil production. And in the new politics of energy created by tight oil, it is by drilling for more oil, not by seeking to use less, that America will become more secure and prosperous.