Defining “Energy Insecurity”

Because the incoming Obama Administration and many others are focusing on policies to alleviate “energy insecurity,” it is important to define the problem accurately. To suggest, as the Western Governors’ Association does, that it matters whether we import oil from “friendly trading partners” or from others is a common misconception that could lead to policy blunders. For example, importing oil from nations X and Y instead of from A and B would not make the US less vulnerable to a supply disruption in A or B. Nor would US military occupation of oil producing regions be anything but counterproductive.

Americans’ only energy insecurity problem is exposure to high and volatile energy prices.

Supply disruptions, such as occurred twice in the 1970s, do not cause the customary buyers of the interrupted supply to be without oil while buyers from uninterrupted supplies are unaffected. Instead, worldwide prices shoot up and tankers are re-directed to different refineries around the world until the reduced worldwide supplies are meeting the highest value needs everywhere. The recent excursion of the benchmark petroleum price to $147 was a worldwide phenomenon, and prices of domestically produced oil increased no less than OPEC prices.

The US now uses 20-21 million barrels per day of petroleum. At $70 per barrel, that is about 3.5% of GDP. When the price doubled to $140 this year, it became 7% of GDP, depressed economic activity in the US, Europe, and Asia, and caused large permanent transfers of wealth to exporting nations. If we were consuming only half as much oil, the impact of the price spike would have been only half as large and would probably have been tolerable.

The only effective solution to our real energy insecurity problem is to make our economy generally more energy efficient and specifically to consume less petroleum from all sources. Increasing efficiency of petroleum use will also ameliorate, if not eliminate, our chronic negative balance of trade, reduce greenhouse gas emissions, and boost growth industries employing middle class and working class Americans at good wages.

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