

ENERGY DEVELOPMENT IN A FREE MARKET

DANIEL V. KISH

SENIOR VICE PRESIDENT FOR POLICY, INSTITUTE FOR ENERGY RESEARCH

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Good Morning

My name is Dan Kish, and I'm the Senior VP for Policy at the Institute for Energy Research, a Washington and Houston-based free market think tank. We concentrate 100% on energy, and we're trying to bring a different voice to the discussion throughout the country---but especially in Washington---that is taking place on energy policy right now. Being from Washington, we make everything into an acronym, and there we're known as "IER."

I'd like to thank Governor Barbour and the Southern Growth Policy Board for the opportunity to speak briefly this morning on how IER sees the current debates about the way forward on energy in the United States, and especially in the Southern States, where you have shown the leadership to appreciate economic growth and all the benefits it brings for everyone. Compared with some other parts of the country....like California and the Northeast....you haven't followed the latest energy fad, and that has helped the citizens of the region. As a result, you've evaded much of the self-inflicted damage other parts of the country are doing to themselves right now. That's a good thing, because at IER, we know many of these policies will turn out to be unwise and harmful to economic growth.

Since IER looks at energy policy with an admitted bias of believing Free Markets beat government dictates and mandates and regulations -- hands down -- every time, our view of the current situation is pretty simple:

1. Energy is the lifeblood of the economy;

2. Energy is freedom—it allows us to do more with less, and frees up the one resource that is *truly limited*.....time;
3. America has flourished in large part by using abundant, affordable energy;
4. America is home to vast energy resources, and
5. Washington is now working to drive up energy prices, and that will hurt America, our future economic growth, and our competitiveness in the world.

At IER, we think affordable, abundant and reliable supplies of energy are the basis upon which all economic growth depends. If energy becomes less affordable, less abundant, or more unreliable, our economy will suffer and so will our future. And free markets are the best way to achieve that.

We take that position from the very simple proposition that energy makes everything else possible. Don't take my word for it...go right to the dictionary. The dictionary's definition of energy is "The Capacity To Do Work."

If we reduce....or make more expensive...The Capacity To Do Work.....we will get less work. With less work comes less economic growth and less progress. The work will go to those places of the world where The Capacity To Do Work costs less. It's as simple as that. And government policies are making things worse, not better.

This isn't just think-tank talk to me. My career up until the time I joined IER a year ago was spent on Capitol Hill, behind the scenes, working for the congressional committees that passed the laws and set the policies that have led to the problems we have in energy today.

When Congress decided to place 85% of our offshore lands off limits to energy development with the first moratorium in 1981, I was fighting to stop it. It seemed evident to me....as it has to the American public....that embargoing our own energy from ourselves and then

complaining about too many foreign oil imports just doesn't make any sense.

Likewise, it was my job to argue for opening ANWR in Alaska, which according to government reports, could increase our US proven oil reserves by 50%, create hundreds of thousands of jobs and reduce our foreign oil tab by hundreds of billions of dollars. President Reagan asked Congress to open that over 20 years ago.

Along the way in both the House and Senate, I watched as Congress took more and more actions to make it harder and more expensive to produce energy in America, and easier and easier to send jobs and dollars overseas to others. By making it harder to mine coal, build a pipeline, permit a nuclear power plant or a dam, build a transmission line or produce natural gas --- the answer from Washington was always....interfere in the market.

During my career, I would watch Washington take people to task for not building enough refineries.....and then turn around and pass laws to ensure they wouldn't. In the last several years, I've watched elected Members of Congress argue for more alternative energy and then fight measures to *speed up* the deployment of wind, solar and geothermal activities on federal lands. Or argue that we need to use more clean-burning natural gas or clean coal or coal-to-liquid or oil shale, but then take steps to make it tougher...or even impossible....to produce any.

The truth is, Washington is terrible at producing energy. You've all heard about the squeaky wheel getting the grease...well, that grease is about the only energy ever produced in Washington.

When energy is discussed in Washington, it's really something else: it's about politics. It's about who gets what, and how much. It's about what regions of the country benefit from a particular policy and which ones suffer. It's about interest group politics and who can put together the better public relations campaign to get what they want passed into law so they can benefit. And in the end, the public ends up paying the tab, and the country gets hurt. We have less choice,

more expensive energy and things that just don't make sense. We reduce the capacity to do work.

What happens in Washington isn't evil; it's just the way it works when people from around the country come together to vote on national policies that affect local people. But what works in one place doesn't work in another. That's why at IER, we believe in energy markets. If consumers are free to choose to buy whatever energy they want, the energy sources that win are the ones consumers vote for. If someone wants to pay more...or less...than his neighbor for a type of energy that he likes, so be it. This is America.

But the exact opposite is happening right now. The government is making the choices and picking the winners and losers. The energy that fuels our capacity to work --- and the markets allowing it to flow -- are currently under assault from all directions, and this will affect both supply and demand and spread pain to anyone who consumes energy or uses anything that uses energy. And that means all of us.

When the cost of energy to produce food goes up, food prices go up. When the cost of transportation goes up, or the cost of electricity goes up, or the cost of chemical feedstocks go up because of decisions made in Washington, it takes money out of the pockets of families and businesses and puts it in someone else's pocket. If the government says we can't use coal, or nuclear power, or natural gas or oil or a certain type of biomass, the supply shrinks and the price goes up.

And if the price goes up too much, it *not only* hurts the consumers who use the goods and services that cost more, it actually threatens the manufacture of those goods and the provision of those services in a global economy. If it makes US goods and services more expensive than our global competitors', *we will lose jobs and investment*.

Proponents of the Green Jobs theory....the hottest talking point in Washington right now....know this, so they created Green Jobs as a rallying cry to push back against the commonsense notion that if energy becomes more expensive, jobs will be lost. The Answer: Green Jobs!

Don't get me wrong....if jobs are created in green industries because their products are affordable and reliable, more power to them. The results of their work will help all Americans, and end up shifting investment capital away from other forms of energy that can't compete. That would mean cleaner energy and new jobs being made by the choices of consumers. But Henry Ford didn't put America on wheels...and revolutionize transportation and personal freedoms...with a government program. He did it because people chose his product voluntarily.

IER's problem comes when these jobs are created only because the government subsidizes them heavily, or worse yet, mandates that people buy them, regardless of cost. And believe me, we've been subsidizing alternative energy for a very long time. Congress is wrestling with that issue right now in the form of the Renewable Energy Mandate, which requires states to ensure a certain amount of their energy comes from renewable sources or consumers and businesses have to pay a penalty into a fund that the government would use to spend on their energy priorities.

And it has to be "renewable" by their legal definition.

Hydropower....our nation's largest source of renewable energy, doesn't count, unless it's a kind of hydropower that hasn't proven economic yet. Nuclear power --- the waste from which can be recycled into new fuel and which creates no carbon dioxide emissions -- is not renewable by their definition....even though reducing carbon dioxide is the goal behind the law. Even certain types of biomass don't qualify, depending on whether they are politically correct or not.

At IER, we wanted to find out more about the Green Jobs movement. After supporters of Green Jobs kept citing Spain as the example we should follow when it comes to Green Jobs, we decided to look at Spain's experiment. Spain has a very aggressive renewable energy program that includes government mandates, subsidies and payments to industries. IER commissioned a [study](#) of Spain's Renewable Energy industry from Dr. Gabriel Calzada and other members of the economics faculty at King Juan Carlos University in Madrid.

- The results were stunning.

- 2.2 jobs “lost” for each “green job” created
- 9 out of 10 “green jobs” created over last 10 years have disappeared
- Unemployment in Spain is at 17.4%

Dr. Calzada’s study showed that the emperor has no clothes, and the Doctor has since been attacked by his own government for the report, though they haven’t attacked his conclusions. It turns out the Spanish government wanted to have their companies -- that the government built up with subsidies and mandates--- come to the US and sell their goods here. In part because they’re already talking behind the scenes about slowing down their program, like much of Europe.

You see, it all looks good if you’re the one getting the green job. But if the electricity you make is too expensive, and the cost to the economy is so high that it takes money away from more productive uses, it doesn’t work.

And at IER, we’re afraid that is where the US is headed.

Does it make sense to turn up our noses at our own affordable resources here at home and instead mandate the use of renewable energy sources that cost more to make and finance and don’t work as well? We would argue that this is nothing short of making the entire country pay more....and get poorer....to prop up someone else’s preferred business model.

Already, the largest wind energy company in Denmark has announced they are closing plants in Denmark and the UK because the government subsidies aren’t high enough for their guaranteed markets. They are building plants in China for export to other countries. Most Americans wouldn’t think it was very smart if their government made energy prices so high that the manufacture of our wind turbines was transferred to China, where they will make them using cheaper coal-fired electricity and sell them back to us.

But there is another way Washington is currently toying with markets in ways that make no sense. They are deliberately working to increase the costs of all energy in order to make forms of energy that can’t

compete in the market more competitive, and to generate revenue for the government from all consumers of energy. Lots of revenue. It's known as Climate Change legislation, or Carbon Regulation, or Cap and Trade. The bill that has gotten the most attention is the Waxman-Markey bill in the House of Representatives.

This bill would hurt the US economy, and all Americans. An MIT study concluded the cost per family could be as much as \$3100 annually in total costs added to goods. But it would especially hurt the Southern States, which don't have the options for renewable power other states have, or where incomes are not as high as in California or the Northeast. A couple of the biggest contributing factors to the amazing economic growth and increased standard of living in the South have been affordable and abundant energy and the use of air conditioning to make peoples' lives better. That would change under this bill.

And if change is required, what will be the results of those changes on the purported goal of the legislation? Remember, the bill's stated purpose is to "do something" about world temperature change, based upon computer models developed by global climate change proponents. But [according to the models](#) developed by those proponents, the results of an 83% reduction in carbon dioxide by the US in the world 2050 will be .09 degrees Fahrenheit. That's 9/100ths of a degree 41 years from now. You be the judge...is reducing per capita emissions to pre-industrial levels for the US by 2050 justifiable for this projected benefit?

Because of ample supplies of energy, hard-working people, and governments that view laws, regulations and taxes as important parts of a strategy to compete, the South has grown rapidly, and much good has come to the region. Other parts of the country that haven't followed this path have lost jobs and investment to you, because capital flows to where it can do the most good. But that's made leaders from other parts of the country argue that the federal government should impose the same laws on you their states have imposed upon themselves. California, whose energy policies have been disastrous to jobs and industry, is viewed in Washington as a

model for everyone else to follow. As a result, California's energy standards are being required in a host of areas under the Cap and Trade bill. *I can't make this stuff up.*

The truth is, people in the South should know that their governments have been responsible when it comes to making sure people and industries have adequate supplies of energy at a reasonable price. They have walked softly in most cases when it comes to interfering in markets, preferring instead to allow choices to be made by consumers, and knowing that if energy prices get too high, people will suffer and jobs will leave.

If Washington imposes these policies on the South, IER believes you will lose more than you will gain, and the damage will be systemic. With that in mind, as you consider the merits of local or federal programs that involve energy, remember a couple things you were probably told as a child: You don't get something for nothing. And anything that sounds too good to be true probably is.

I'd ask that you remember several other things as well.

- Energy is the largest industry in the world....by far....because it makes all other work possible. It is the capacity to do work.
- We use what we use for energy not because of government mandates, government subsidies or government policies, but because they have won in the marketplace. Free citizens choose to purchase them.
- The US and North America are literally dripping with energy of all kinds...we are not running out. We have, however, made it a national policy not to look. With only 3% of the government's lands even leased for energy, we still have 97% to look at to meet our needs for decades...perhaps centuries...into the future. I repeat...we are not running out of energy.

With those closing thoughts in mind, I thank you for showing up this morning, and invite you to visit IER's website to find out more information at www.instituteforenergyresearch.org.

Thank you.

