Insight

House Republican Budget Heals American Energy

CATRINA RORKE | MARCH 20, 2012

Chairman Ryan and the Budget Committee's budget proposal lays out a clear vision for an American energy sector unbridled by excessive regulation, punitive tax structures, and intrusive government investment. It defines a specific and limited role for government, and sheds all but the most critical types of government spending and decision making. The Republican budget breaks the pattern of tax-and-spend policies for the new favorite technologies, and creates a clear and predictable set of rules that allows the private sector to thrive.

It might be instructive to define what needs fixing in the energy sector (in case we haven't covered that enough on this blog). Government policies in the energy space have been evolving much slower than the technologies we use. In order to achieve certain prescriptive outcomes in the fuel mix or demand growth, government relies on a crippling combination of layered regulatory requirements, short-term, piece-meal tax expenditures, loan guarantees and grants for preferred industries, and bureaucratic limitations, like drilling moratoriums.

The end result is that energy companies don't know which way is up and don't have any prescription for what government involvement will mean for market competition in their industry. This pattern has also engendered boom-and-bust energy companies that exist specifically to take advantage of generous government subsidies, even if their product is uncompetitive in the market. The private sector is also terribly slow to make decisions related to the national energy infrastructure (especially when in circumstances that flippant, political brinkmanship define permitting decisions; see: Keystone XL).

So knowing the problem, what can we do to fix it? First, it's clear that regulators need to step back and define a discrete set of goals and regulations to meet them. Particularly in the case of redundant EPA air quality regulations for point sources, in which a smaller set of regulations can achieve similar outcomes at reduced cost to industry.

Second, the regulators that hold the keys to our locked-up natural resources need to define a clear, consistent process for opening up lands to research and exploration and for permitting requirements. Long permitting processes resulting in litigation and multi-agency review effectively close-down exploration activities. In particular, Shell has been seeking permits to drill in Alaska's Chukchi Sea since 2008; with the summer drilling season coming up, the company is still unsure if it will be able to open operations.

Third, the government needs to get out of the business of picking winners and losers. Every year, emerging energy industries spend millions of dollars lobbying Congress for extensions of the tax breaks that allow their technologies to survive. Companies pop up to leverage loan guarantees, tax expenditures, and other subsidies designed to increase the role of a certain technology or fuel in our energy market. These signals are inconsistent, unclear, and, above all, a contemptible government intrusion into the energy market that taxes successful businesses to support ineffective (if favored) ones. There is a clear role for government to play in supporting foundational research and energy security; beyond that, government spending clouds the market and inhibits effective growth.

By addressing these three high priorities for improving the way the government works with energy markets, Chairman Ryan and the Budget Committee have laid out a roadmap for a successful, competitive, thriving energy sector. The budget also doubles down on high priority fiscal goals for the United States, and challenges the White House to come up with a concrete plan themselves. This House Republican budget is a bold statement for conservatism, which could cultivate increased exploration of abundant domestic resources, enable the market to pick an optical mix of fuels and technologies, lower prices for American tax payers, and save the country money.