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NO EASY WAY OUT

Are we really addicted to oil?

If president's analogy is correct, he didn't offer any real ways to curb it

By JOE BARNES and RONALD SOLIGO

In his State of the Union speech, President Bush likened American consumption of oil to an "addiction." The metaphor — one routinely trotted out by politicians of both parties — is a poor one.

Are Americans really "addicted" to oil? When we speak of addictions, we normally mean behaviors — smoking, drinking or drug use — that, because of biochemical dependency, make it extremely painful for the addict to quit. Does anyone really believe that buying a smaller vehicle instead of an SUV would be as difficult as quitting a two-pack-a-day cigarette addiction or kicking a long-term heroine habit? Rather than an addiction, American preference for large, heavy vehicles is actually a rational response to the fact that gasoline has historically been cheap and, despite recent price increases, remains so compared with prices in Europe and elsewhere. SUVs and other gas-guzzlers have characteristics that American consumers like, and if the vehicles aren't too expensive to operate, why not buy one rather than a more fuel-efficient car?

But let us for a moment assume that the president's metaphor is in fact accurate. As a nation, we've dealt with alcohol and tobacco addictions by placing taxes on their consumption. In the case of drugs, we have spent billions in law enforcements trying to reduce supply, the effect of which is to raise prices. In both cases, the idea is that people will consume less if prices are higher. In the case of illegal drugs, we also put users in jail — which is another "cost" to the consumption of those goods. The same rule would work with gasoline. The recent steep decline in SUV sales suggests that consumers are in fact responsive to gasoline prices. There's no doubt that Americans would kick their gas consumption "habit" if U.S. prices rose to European levels.

Yet the president made no mention of this obvious way to curb our "addiction." There was no talk of higher gasoline taxes or tougher standards that would force manufacturers to build more fuel-efficient vehicles. How does the president think we can end our addiction if no one takes away the punch bowl — to use a metaphor often applied to a restrictive monetary policy? The answer — to judge from the president's proposals — is to subsidize research on new automobile technologies and fuels. But these alone will do little to reduce our gasoline consumption. After all, gas-electric hybrid technology is already available; ethanol as an alternative fuel has been around for decades. The problem is that these are both expensive relative to their conventional alternatives: the internal combustion engine and gasoline. Consumers will change their buying habits only when it is cost-efficient to do so. If we increased gas taxes or fuel-efficiency standards, automobile producers would have a strong incentive to quickly innovate and produce more efficient cars. And consumers would have an incentive to buy them.

Another of the president's stated objectives — to reduce consumption of Middle East oil by 75 percent by 2025 — also lacks follow-through. Why wait two decades? In fact, the president's target could be achieved very quickly. The Middle East produces roughly 30 percent of the world's petroleum. That leaves 70 percent produced elsewhere. If we prohibited oil imports from the Middle East, petroleum from other regions would automatically be diverted to the U.S. market and we would be free of Middle East oil! That's how markets work. To be sure, we might have to pay a premium to bid non-Middle East oil away from other consumers, but the point is that the president's goal is achievable today.

Of course, the prices Americans would pay at the pump would still be determined in large part by production in the Middle East. This is why the administration quickly backed off from its pledge to reduce Middle East imports. Today's petroleum markets are truly global. Unless we completely isolate our domestic market from the world, we will continue to be susceptible to price shocks no matter how much of our oil is imported from the Middle East or, for that matter, anywhere else. Again, that's how markets work.

We applaud the president's calling attention to the need to curtail our national oil consumption. After all, Americans, with 5 percent of the world's population, consume 25 percent of the world's oil output. Given our huge share of the market, there's no doubt that if we consumed less, prices would fall or at least rise less quickly. But the president's suggestions will have little impact on curing U.S. dependence on oil, whether that dependence is an "addiction" or merely a rational response to prices. The ugly truth — one that the president's State of the Union message conspicuously avoided — is that there is no easy solution to our dependence on oil. Or to use another metaphor: No pain, no gain.

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