

Spring 2015

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Recommended Citation

Ganduri, Naresh (2015) "The Controversy Surrounding Cheap Energy," *ESSAI*: Vol. 13, Article 15.
Available at: <http://dc.cod.edu/essai/vol13/iss1/15>

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The Controversy Surrounding Cheap Energy

by Naresh Ganduri

(Chemistry 1552)

The price of electricity and gas - indeed, of energy in general - has long been the subject of debate in both the United States and around the world. Essentially, two factions have formed. On one side are those who believe that the cost of energy is excessive and should therefore be reduced through government intervention. On the other side are those who believe that cheap energy is detrimental to society. There are various arguments in favor of both propositions that call attention to various issues that may be affected by energy prices. Economic factors may come into play, for example. Some argue that increasing gas prices will result in the loss of jobs. Consumer demand may drop in response as fewer people have money to spend, potentially resulting in economic collapse when compounded with additional hardships. Environmental factors may come into play as well; opponents of cheap energy may argue that low gas prices will drastically increase fuel consumption, resulting in increased carbon dioxide emissions that act as a detrimental influence on the global climate. Whatever the reasons posited in favor of either argument (or any other, for that matter), this essay will attempt to explore a few of them in greater detail.

One argument against high energy prices is that driven by concerns for the welfare of average families in the U.S. and around the world. Economist Fan Zhang at the World Bank, for example, found that price hikes in electricity can result in dramatic welfare loss for low-income households (Zhang 71). Using data sampled from Turkish households after a dramatic increase in the country's residential electricity tariff in 2008, Zhang found that poor households are unlikely to adjust their consumption in response to price changes in comparison to wealthier households (Zhang 71). The result is welfare loss that disproportionately affects impoverished families.

Indeed, the inability of households to adjust to rapid price increases has been cited as a concern by many others as well. Researcher Mark S. LeClair notes that "until consumers are convinced that the observed price changes are permanent, little alteration in demand will occur," implying that rapid price increases can result in (ultimately avoidable) welfare loss for families in a manner similar to that which Zhang has predicted (LeClair 41).

Overall, this presents a challenge to proponents of market driven gas prices because the gas market is famously volatile whereas demand is relatively constant. Indeed, other researchers have raised concerns as to the reliability of supply and demand in setting market prices. Researchers David P. Byrne, Gordon W. Leslie, and Roger Ware have written in support of preparing consumers for unpredictable, rapid daily gas price shifts through the use of programs like the online price reporting scheme GasBuddy, thus directly shaping demand: "our study helps motivate pro-competitive policies and technologies like GasBuddy that aim to inform the consumers about daily retail price fluctuation to help them make well-timed fuel purchases" (Byrne, Leslie, and Ware 143).

Nonetheless, proponents of decreased market regulation are unconvinced. For example, while it has been argued that increased oil prices will negatively impact the United States GDP, the origin of the price hikes may potentially offset the initial GDP drop, implying that the market is indeed resilient (Bebbee, and Hunt 295). For example, researchers Jared Bebee and Ben Hunt have predicted that increased demand for energy in developing Asian countries leading to price increases could actually increase the U.S. GDP: "the United States will reap some benefit from falling nonenergy import prices and rising demand for exports" (Bebbee, and Hunt 295).

Furthermore, there are also those who argue governmental intervention is necessary for the

sake of the environment. After all, it is well known that the burning of fossil fuels has a strong detrimental impact on the global climate. To curb energy consumption, consequently, supporters of intervention may advocate for tax increases on gasoline and crude oil technologies. The increased price, they argue, will lower consumer demand and force countries to focus their efforts on cleaner, more efficient sources of energy ("Price of Gasoline"). As one MSN writer Lynn Muckey notes, "people are forced to walk more and take public transportation, they will become healthier and pollution will decrease" ("Price of Gasoline").

There are also those who stand in opposition to advocates of increased drilling, citing arguments that increased supply of crude oil will not significantly lower prices. For example, Professors Severin Borenstein and Ryan Kellogg note that, in the case of Midwest crude oil supplies, an expansion of Midwest crude oil export capacities will have minimal impact for most of the United States: "U.S. consumers outside the Midwest will not experience a decline in gasoline prices" (Borenstein, and Kellogg 30). Seeing as the primary argument in favor of increasing drilling is that it will favorably lower gas prices, this prediction throws such an argument into question.

Unsurprisingly, however, those in favor of increased drilling may still be unconvinced. One argument in favor of domestic and offshore drilling is that tax breaks for oil companies decreases gas prices because the decreased cost of production is passed along to customers in the form of savings ("Price of Gasoline"). This is somewhat in line with those who believe that the market sets oil prices; tax breaks on oil companies will increase supply, which, in theory, will increase demand as consumers realize oil scarcity is less of a problem than they initially perceived.

However, there are also those who argue that oil prices are not set by supply and demand anyway. Some claim that oil speculators have dramatically increased the price of gas by "buying and selling the rights to purchase quantities of that commodity at a certain price in the future" ("Price of Gasoline"). The role of speculation in price changes is itself a matter of heated debate. Meanwhile, there are alternative reasons that essentially argue to the same effect. For example, researchers David P. Byrne, Gordon W. Leslie, and Roger Ware have written, particularly in regards to the Canadian market, that gasoline retailers have tremendous market power in setting prices as they please; the market is, overall, anti-competitive, and consumer demand is at the whims of massive retailer networks (Byrne, Leslie, and Ware 143).

Ultimately, there is a great deal of confusion that hampers the efficacy of many arguments throughout the debate. As it has been noted that oil is a notoriously volatile commodity, reasons for price fluctuation are often difficult to pinpoint, but the need to do so is evident. Oil prices, for example, are intimately linked to many other forms of energy, including electricity ("Price of Gasoline"). To provide more clarity, therefore, Mark S. LeClair and others have proposed methods for reducing price variability involving federal taxation (LeClair 41).

Overall, it becomes clear that there is no definitive consensus as to the price of gas, electricity, and other forms of energy; indeed, the topic has fallen victim to dichotomous debate. Arguments exist on both sides in favor of and in opposition to cheap energy. Reasons cited against cheap energy include environmental concerns and the need to let supply and demand dictate market prices. Proponents may argue for increased taxation to draw attention to the relative scarcity of crude oil reserves, for example. Arguments in favor of cheap energy cite economic concerns, that price hikes have a detrimental impact on consumer welfare, jobs, and the GDP. Regardless of the arguments given, there neither seems to be a clear resolution to the issue as of the time of this writing nor does it seem that there will be one in the distant future.

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