1973

- OCT 8-10 OPEC negotiation with oil companies fail
- 16 Iran, Iraq, Abu Dhabi, Kuwait, Saudi Arabia, and Qatar raise price oil 17%
- Oct 17 Openc agrees to cut exports and recommend embargo
- 19-20 OPEC proclaims embargo against US
- November Embargo extended to Netherlands, Portugal, Rhodesia, South Africa
- Nov 27 Nixon Signs Emergency Petroleum Allocation Act
- Dec 22-24 OPEC Gulf States double+ price of crude oil

1973 Oil Embargo

- OPEC cuts oil exports (5%/month + 25%) to pressure US. Raises prices.
- Gas prices quadruple. Supply is limited.
- Policy rations fuel; mandates cuts in commercial lighting, limits heating in federal buildings . . .
- Appeal for voluntary efforts to limit consumption.
Response to crisis: “Energy conservation is the moral equivalent of war.” J. Carter

- 1974 national 55 mph speed limit
- 1975 Energy Policy and Conservation Act
  - Strategic petroleum reserve
  - CAFE standards
- Other conservation policies promote development of more efficient technologies.
- Rapid growth in alternative energy R&D.

Auto Fuel Efficiency

Data courtesy of the Federal Highway Administration of the US Department of Transportation.

US Vehicles Miles per capita

Data courtesy of the Federal Highway Administration of the US Department of Transportation.
### What’s the problem with SUVs?

<table>
<thead>
<tr>
<th>Advocates</th>
<th>Critics</th>
</tr>
</thead>
<tbody>
<tr>
<td>• “The only problem is when government interferes in private life.”</td>
<td>• It’s a “bad bargain for society. “</td>
</tr>
<tr>
<td>• “It’s my choice whether I make my family safer. Don’t complain if you’d rather save a few bucks”</td>
<td>• Wasteful. Dangerous excess. Selfish.</td>
</tr>
<tr>
<td>• Vehicles must address the variety of needs that exist in society.</td>
<td>• What’s safe for you (and maybe not) is not for us.</td>
</tr>
<tr>
<td>• Not breaking any law.</td>
<td>• It’s immoral. You ignore the impacts your actions have on others. Desire cannot justify military action.</td>
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<td>• “It’s my right.”</td>
<td>• You’re misguided.</td>
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### What’s the problem with SUVs?

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<td>• Individual choice is sacrosanct.</td>
<td>• Wanting is not needing.</td>
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<td>• Society includes different needs and priorities. Choices must be available to each.</td>
<td>• No right is involved.</td>
</tr>
<tr>
<td>• Tastes are not open to dispute.</td>
<td>• Choices that affect others are moral choices. Require actions that are just, fair, responsible . . .</td>
</tr>
<tr>
<td>• No legitimate basis for government intrusion.</td>
<td>• Safety and security create a legitimate basis for government action.</td>
</tr>
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<td>• Choices misguided.</td>
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<td>• False tradeoff.</td>
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2 competing problem frames.

Markets & private choice preferred.  
Problem is govt intrusion.  
Do nothing.

Legitimate public concerns come before private preferences.  
Problem is individual choices fail to take account of broader impacts.  
Gov't must act.

If government acts, how can/should it act?

What alternative strategies are available that can infuse individual/private choice with public/collective concerns.

Forms of Government Action

Voluntary Action
Laws
Do Nothing
Rules
Rights
Markets
Information
Services
Government Action: Laws & Rules

- Ban SUVs
- Auto Fuel Efficiency Standards
  - Government limits social choices
  - Create pressure for technological development
- Limit gasoline purchases (rationing)

Government Action: Taxes

- Influence individual choice through market mechanisms
  - “price” as signal
- Diffuse mechanism
- Allows for flexibility
- Revenue to finance environmental/energy programs
- Revenue neutral versus revenue generating

Taxing Products to Produce Socially Desirable Outcomes

![Graph showing price and quantity relationships for supply and demand]
Taxing Products to Produce Socially Desirable Outcomes
(highly elastic demand)

Taxing Products to Produce Socially Desirable Outcomes
(highly inelastic demand)

Equity & Taxes

- Taxes on Gasoline
  - Greater impact on:
    - Commuters
    - Working families
    - Truckers
      - food costs
- Taxes on SUVs
  - Greater impact on:
    - Wealthy
    - Businesses
    - Large Families

- Can these effects be mitigated?
- Can Taxes be revenue neutral?
Government Action: Information

- Educate the public on energy use impacts
  - Vulnerability to oil imports
    - Economic policy implications
    - Foreign policy implications
  - Effects on climate and local air quality
- Provide “signals” other than price
  - What might influence consumption decisions?

Government Action: Property Rights

- Property rights created by government action
  - Intellectual property; Real estate
  - Pollution credits
- Creates scarcity and potential for market transactions
- Rights that are auctioned and traded.
  - S02
  - Carbon credits
- How could it apply here?

CAFÉ standards: A mixed strategy

- Rule creates strict requirement enforced through penalties and taxes
- Focus on fleet average allows manufacturers flexibility in meeting standard
- Means open to manufacturers
  - Use incentives to influence consumer choice and offset sales of less efficient cars
  - Educate consumers
  - Technology development: make more efficient cars that are attractive to consumers