



October 17, 2007

Dear Member of Congress:

We, the undersigned economists,\* write to strongly advise against the inclusion of damaging anti-market provisions in the energy legislation now moving through Congress. History has shown that attempts by the federal government to tax, regulate, and subsidize our way to more plentiful and secure energy have failed miserably. This Congress ought not to repeat those expensive mistakes when considering energy policy.

If Congress seeks a reduction in America's dependence on foreign oil, the tax increases found in the House's energy bill won't achieve the goal. Vengeful tax hikes on so-called "Big Oil" serve no economic purpose. In 1980, Congress instituted a windfall profits tax to punish the industry. The result, according to a Congressional Research Service study, was a drop in domestic oil production of 3 to 6 percent and an increase in oil imports of 8 to 16 percent.

But instead of simplifying and equalizing tax treatment across all industries, current proposals attempt to bestow favors upon certain sectors at the expense of others. The energy bills propose dozens of new tax credits for so-called "alternative energy" programs, many of which are expensive and not commercially viable.

The House and Senate bills also propose harmful mandates on fuel usage and energy production. Forced consumption of 36 billion gallons of heavily-subsidized ethanol by the year 2022 will significantly raise fuel prices, taxes, and food costs for millions of consumers. Furthermore, requiring that electricity producers derive 15 percent of their power from alternative sources will artificially increase utility bills for American families.

Finally, the legislation purports to let government lead the way to energy independence by creating a slush fund from which alternative energy programs will be funded. Unfortunately, Congress cannot consistently identify and nurture emerging technologies because it distributes funding based on political concerns rather than sound science or economics. Just one example is the \$2 billion Carter-era, feel-good boondoggle called the "Synfuels" program, which sought (and utterly failed) to produce alternatives to petroleum. The lesson from this and other experiences is that political forces cannot replicate the results of market forces.

If Congress wants to pursue a sound energy policy, it ought to reduce government interference in the markets that are capable of delivering innovative energy solutions to consumers. By easing regulatory burdens, ending distortions that divert productive capacity, and allowing the price mechanism to do its job, Americans will have far more energy security at a lower cost than any package of taxes, regulations, and subsidies could ever hope to create.

Sincerely,

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