

THE WALL STREET JOURNAL. CLASSROOM EDITION

DEBATE: OIL AND ENERGY DEPENDENCE

1. Focus Have students find the meaning of each of these words before they begin to read: *distortions, fossil fuels, implausible, incentive, inherently, innovative, manipulation, taboo, and volatile.*

Explain to students that they will be conducting a debate on whether oil prices should be raised to promote energy conservation and independence. Inform them that they will be responsible for arguing one side of the issue. Remind students that a well-prepared debater supports a position with valid evidence, logical arguments, and responsible appeals to emotion.

2. Instruct The authors have both researched the impact of raising oil prices. Have students conduct further research on this subject from credible sources before conducting the debate.

Remind students that they should use the following debate format: The affirmative side will:

- State the problem to be solved. Why is this problem significant?
 - Explain who or what is harmed if the problem is not resolved. Use factual evidence to quantify the harm.
 - Propose a plan of action. Explain why it is better than the current system.
 - Provide factual evidence to show how this plan will solve the problem.
- The opposing side will:
- Refute the arguments of the affirmative side, using factual evidence to quantify and support its position.
 - If necessary, support the status quo's ability to solve the problem.

3. Close/Reteach When the debate is concluded, encourage students to discuss their opinions on the issue. Ask them whether they were persuaded by the other side's arguments. Conclude by having students write their own statements supporting or opposing raising the price of oil to promote energy conservation and independence.

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DEBATING CURRENT ISSUES: *Oil and Energy Dependence*

The U.S. relies on some of the world's most volatile countries to supply a raw material that is critical to its economy and lifestyle. Despite an increasingly energy-efficient economy, the U.S. remains hooked on imported oil.

In this debate from *The Wall Street Journal Classroom Edition*, Erich Pica, a senior policy analyst with the environmental group Friends of the Earth, and John Felmy and Edward Porter of the American Petroleum Institute present two approaches to reducing oil imports and promoting energy independence in the U.S.

YES *Should oil prices be raised to promote energy independence?*

BY ERICH PICA

The price of oil should be increased as part of a price increase on all fossil fuels. Our nation has a problem, and it is not simply a dependence on foreign oil. It is our dependence on oil. The U.S. consumes 25% of the world's oil supply, and has only 3% of its resources. Unless we fundamentally shift our oil consumption patterns, we will remain dependent on foreign oil.

Friends of the Earth, a nonprofit environmental organization, believes that the best way to help solve our dependency problems is with a carbon tax, or a fee on all fossil fuels, including oil. Such a tax would be an efficient way to encourage businesses and individuals to conserve fuel and develop nonfossil-fuel energy sources. And a carbon tax would also fix many of the economic distortions currently not factored into the price of oil.

For example, current oil prices do not reflect the impact of air pollution from our passenger vehicles, which contributes to unhealthy levels of smog that harm human health. And they don't reflect the environmental impact of oil drilling, which damages public lands and coastal areas. Nor do they reflect the growing military and foreign-policy costs of defending oil interests in the Middle East and other turbulent regions.


Using the true cost of oil would raise prices, but it would provide the incentive for consumers to reduce


consumption and turn to innovative, clean sources of energy. Ultimately, using less oil is the only way to reduce our dependence on foreign supplies.

A carbon tax is a potential silver bullet that could solve our dependence on oil. Yet, unfortunately, it remains a taboo topic for political leaders. Elected officials and their allies in the oil industry are creating false choices between dependence on foreign oil and reducing the cost of domestic production, knowing that as long as we consume at current rates, our dependency will remain.



Massive oil rigs extract petroleum from beneath the ocean floor. Does the market price of gasoline reflect all the costs of its use?

 **Debate Activity** Debating Current Issues folder, p. 8 asks students to analyze how the concept of *elasticity of demand* works to set the target price for oil.

 **Economic Assessment Rubric** Economics Assessment Rubrics folder, pp. 14–15 provides sample evaluation materials for participation in debates.

NO

Should oil prices be raised to promote energy independence?

By JOHN FELMY AND EDWARD PORTER

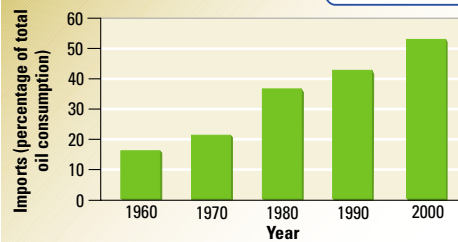
The notion that we should raise the price of oil is an old idea that resurfaces frequently, especially as the level of U.S. imports increases. But it is an idea based on incorrect assumptions that oil consumption is inherently harmful, its use can be reduced dramatically without cost to the economy, and that by boosting prices we might enjoy a net gain to the environment and reduce dependence on foreign supplies.

These notions are simply implausible. Energy is a productive input into economic activity, and oil is the pre-eminent form used in transportation. If we raise its price, we reduce its use and lose the added value of all economic activity associated with that use. Throughout the last century, there are no examples of sustained growth occurring without increasing energy, and no examples of economic development without increased transportation. Energy, and in particular oil, are essential to sustained economic growth worldwide. And, because of spectacular advances in technology in the production and use of oil, old trade-offs between energy use and the environment often have been reduced or eliminated.

The real problem is not the price of oil or the level of U.S. imports, but the secure supply of energy to a growing world economy in a manner consistent with the highest environmental standards. Although over 180 billion barrels of oil have been produced in the U.S. since 1859, it is estimated that there are over 140

United States Oil Imports

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Source: Energy Information Administration

More than half the oil consumed in the U.S. is produced in other countries.

billion barrels left. But the U.S. is not the main player in this market, as oil is now produced by about one hundred countries worldwide. In fact, it is competition among this diverse group of suppliers that is the most effective way to secure both moderate prices and the oil needed to sustain future economic growth.

The policy failures of the past five decades have all shared a common theme—they have sought to defeat the global market by manipulation of price. All past attempts to do so have failed. Given the degree of globalization in the world economy, they are even more likely to fail today. The only effect of raising oil prices in the U.S. today would be to put U.S. firms at a competitive disadvantage in the global market.

What is now needed is responsible development of our domestic resources along with a vigorous commitment to freedom of trade and investment worldwide, not a return to failed policies of the past.

DEBATING THE ISSUE

- In addition to the price of oil, what does Erich Pica say are the costs of U.S. dependence on oil?
- According to John Felmy and Edward Porter, why have oil pricing policies failed in the past?
- Critical Thinking** Do you agree that raising oil prices would put U.S. firms at a competitive disadvantage in the global market?
- Reading Graphs** What share of U.S. oil consumption was imported in 1970? What share was imported in 2000?

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Background

About the Authors

Erich Pica, a senior policy analyst with the environmental group Friends of the Earth, argues that oil prices should be increased through a carbon tax, as a way of reducing consumption and dependence on foreign oil. Arguing against such a tax are John Felmy, chief economist, and Edward Porter, research manager, of the American Petroleum Institute.

Differentiated Instruction **L3**

Oil prices are set by the interaction of buyers and sellers in an exchange where all parties expect to gain. As buyers, what alternatives do students have to shift the demand for oil or to find substitutes for oil? Ask students to explain what they or their family would do differently if the price of oil and gasoline remained high for the next five years. Have them list five changes they could make. What impact would shifts in the demand for oil have on the U.S. economy?

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Students can find additional links related to the debate by visiting the *Economics: Principles in Action* site at PHSchool.com.



Interdisciplinary Connections: History

Oil Imports Founded in 1960, the Organization of Petroleum Exporting Countries (OPEC) is an international cartel that is a major supplier of oil. In 1974, an Arab oil embargo caused oil prices to quadruple. As a result of this event, in 1974, the U.S. spearheaded the creation of the International Energy Agency. This agency's purpose was to gather a stockpile of oil to offset any future supply shortage. In 2002, OPEC and the IEA worked together to reach an understanding that would keep

oil prices within a range of \$20 to \$30 a barrel.

Making the Connection Have students research America's current dependence on oil. What is government doing to increase the supply of or reduce the demand for oil? Would students support boosting supplies of oil by drilling in the Alaska National Wildlife Reserve? Why? Should government subsidize or provide incentives for developing alternative energy sources? Why?

Answers to . . .

- There is the impact of air pollution from our passenger vehicles, which harms human health; the environmental impact of oil drilling, which damages public lands and coastal areas; and the military and foreign-policy costs of defending oil interests in the Middle East and other turbulent regions.
- These policies have sought to defeat the global market by manipulation of oil price.
- Answers will vary, but higher oil prices would raise production costs unless a suitable and less expensive energy alternative could be substituted.
- 21 percent; 52 percent