



THE ENERGY CROSSROADS

How Detroit and Washington Can Fuel the Future. By Vijay Vaitheeswaran & Iain Carson

THE WORLD IS AT AN ENERGY CROSSROADS,

and the decisions made about cars and oil in America, China, and elsewhere over the next decade or so will set the course for the coming century. That is because energy infrastructure can last for decades, and the carbon emitted can last even longer. If we are going to set our energy system on the right course before real crisis hits in a decade or two, we need to start that transition now. Even Detroit could yet prove to be the automotive superpower of the twenty-first century. Detroit may be down, but it does not have to be out. And it does not have to bow to Japanese or other foreign rivals.

It is not only far-flung island states—ranging from Iceland to Hawaii to Vanuatu—concerned about pricey petroleum imports that need to embrace a clean-hydrogen future. And it is not just places with hyper-green economies like California and Sweden that can declare a firm goal of becoming completely independent of petroleum. America's industrial heartland can, and needs to, leapfrog ahead as well.

The key obstacle now is Washington's backward-looking, obstructionist approach to energy—a pork-barrel fiesta that Senator John McCain has called the "leave no lobbyist behind" approach. That has led some to despair that, given the power of the oil and car lobbies, nothing good can ever come out of Congress on energy. Techno-utopians argue that magical new technologies will save us, while market fundamentalists say that the invisible hand will do the trick. Well-intentioned corporations keen on clean energy and carbon-free technologies make the argument that "corporate social responsibility," not public policy, is the key. And small-government types are suspicious of Washington anyway.

Here is why all of these groups are wrong. When it comes to the thorny geopolitical, environmental, and economic complications involved with cars and oil, America's federal energy policies do matter. The heady mix of perverse subsidies for fossil fuels and the absence of proper "externalities"

taxation on gasoline leave the game rigged in favor of how Detroit currently operates and guarantees continued oil addiction. This will not change magically unless the incentives facing entrepreneurs and innovators change. Clean technologies will not get their just rewards in the marketplace, and new markets for carbon-free energy will not take off, unless we fix what's wrong with energy policy so that the playing field is level.

After all, the business of business is business—as it should be. Contrary to what some critics claim, there is nothing inherently evil about oil companies pumping oil or carmakers selling cars. That is, in fact, their job—and for decades, it was socially acceptable for them to do so. The difference today is that society's expectations are changing: a richer, greener, better-informed world is demanding much more from its energy and transportation industries. The social contract is evolving, but public policies have not yet changed to reflect that progress.

The challenges are daunting, but the solutions are within grasp if [we] mobilize and energize the political process in favor of clean energy.

That, in sum, is why government still matters. Only sensible and courageous action by government to take account of the external costs of burning oil can set things on the right course. Those external costs are not reflected in the pump price of gasoline, but of course we pay for them through the Pentagon budget, the suffering of asthmatic children, and the pain of economic shocks. Only if the federal government spurs change through market-based regulation or, better yet, through carbon taxes, will we level the playing field and give clean cars and carbon-free energy a fighting chance. That will happen only if everyone is ready to abandon the myth that fossil fuels are cheap and pay an honest price for gasoline. There are signs that the Great Awakening is changing consumer attitudes

on this crucial issue too. Ask ordinary Americans if they will simply support a hike in gasoline taxes, as the *New York Times* did in 2006, and the majority say no. But when the pollsters asked whether those same people would be willing to support higher gasoline taxes if the money went to reduce oil imports or to fight global warming, a strong majority responded yes.

That suggests that the country is just about ripe for a new approach to this issue. In our new book, *ZOOM*, we argue that the next president and Congress should embrace an energy policy that follows the following five first principles:

Americans need to pay honest prices for fossil fuels: The cost of gasoline must reflect the true cost to society imposed by its environmental, geopolitical, and economic harm. The best way to accomplish this is through revenue-neutral taxation and the elimination of subsidies, which would level the energy playing field so that clean alternatives finally have a fighting chance.

1. The business of business is business: Don't expect corporations to act out of goodwill, charity, or "corporate social responsibility" to tackle oil addiction. There is nothing immoral or surprising about oil companies selling oil or car companies selling SUVs, and voluntary schemes and claims of being "beyond petroleum" should be discounted. If Americans want companies to move beyond oil, they must change the social contract through government action.

2. Leave it to the market to pick the winners: The temptation is strong, especially among moon-shooters, to look to the government to back promising technologies. However, history shows this is a formula for disaster. No group of officials, no matter how benevolent or well funded, can match the dynamism of markets and entrepreneurs in coming up with innovative technologies and business models that best meet consumers' needs.

3. Government must act: While bureaucrats should not push favored technologies, the conventional laissez-faire argument for government to do nothing falls short. There is a clear case for government intervention in energy and environmental policy due to the costly externalities involved

in burning fossil fuels. In addition to externalities pricing, there is a strong case for specific regulations (such as a market-minded substitute for the CAFE fuel-economy standards) and especially for investment in the much-neglected areas of technical education and basic energy research.

4. Individual action is the essential catalyst for change: The key to driving change in America's political system is grassroots rebellion. As individuals and communities come together as part of this Great Awakening to demand better from the country's leaders, political leaders of vision will at last have the chance to step forward and answer their call. If the next president and Congress have the courage to craft a new energy policy based on this market-minded manifesto, America may yet prove the petro-pragmatists wrong by leaving oil behind long before the world runs out of it.

Will it really happen? We argue that Americans will follow political leaders with vision and courage, who put forth a comprehensive, bipartisan, long-term strategy to tackle oil addiction and global warming. No one likes to pay taxes, but Americans do respect straight talk, and have always had a strong sense of fair play. If political leaders take the trouble to explain the notion of oil's external harms, and make the case for subsidy and tax reform, citizens will rally to the cause.

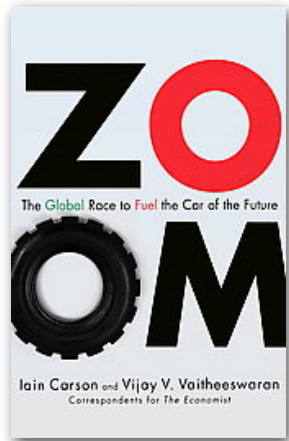
And if the next president and Congress really do embrace an innovative policy and stop propping up the tired old giants of the fossil-fuel and automobile businesses, then radical change will be possible. Entrepreneurs and innovators would then ramp up their investments, and we could see a technological revolution that makes clean, efficient, gasoline-free cars possible. The world's legitimate needs for energy and aspirations for mobility can be satisfied while concerns about the environment are met as well.

But Washington will act only if ordinary Americans—voters, consumers, drivers one and all—speak up, step out, and demand an end to business as usual. As Sir Thomas More argued five centuries

ago, government is simply too important an enterprise to leave to the scoundrels; it is the duty of honest, everyday folk to get involved and to make sure our country heads in the right direction.

By taking the real problems posed by cars and oil seriously while debunking wild-eyed claims made by the chorus of despair, the authors hope this manifesto and our new book will serve as calls to arms. The challenges are daunting, but the solutions are within grasp if readers mobilize and energize the political process in favor of clean energy. Indeed, there is every chance that they can turn this crisis into opportunity, transforming the grease and grime, soot and sulfur industries that built the twentieth century into the clean, sustainable building blocks of the twenty-first century.

*THE GLOBAL RACE TO FUEL THE CAR OF
THE FUTURE IS ON. SUCCESS CAN BE
FUELED BY WASHINGTON AND DETROIT,
BUT MUST BE DRIVEN BY THE CITIZEN
AND CONSUMER.*



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VIJAY V. VAITHEESWARAN is an award-winning correspondent for *The Economist*. As the magazine's Global Environment & Energy Correspondent, he covered the politics, economics, business and technology involved in those topics from 1998 to 2006. Vijay is a term member of the Council on Foreign Relations, and teaches at NYU's Stern Business School. He is a regular commentator on Marketplace radio, in the *Wall Street Journal* and at other media outlets. Vijay's new book, [ZOOM: The Global Race to Fuel the Car of the Future](#), co-authored with *Economist* colleague Iain Carson, will be published in October 2007. His previous book was *Power to the People* (www.vijaytothepeople.com), was published by FSG in 2003.

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