

## Energy and Democracy

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The nexus between energy and democracy is important. The political and geopolitical dimensions of current energy concerns animate interest in the connections and implied challenges for citizens, businesses and governments. The uneven international distribution of energy resources, growing energy consumption, steady increase in energy prices, and continuing reconfigurations of energy markets present an array of problems often highlighted under the heading of energy security. And the issues have moved into the mainstream, symbolized by the joint award in 2007 of the Nobel Peace Prize to Vice President Al Gore and the Intergovernmental Panel on Climate Change for their work calling for action to deal with the accumulation of greenhouse gases and the threats of global warming.

The International Energy Agency’s regular reports provide a useful and comprehensive overview of the numbers and trends, “charting a course to a more secure, competitive, lower-carbon energy system.”<sup>ii</sup> The broad outline for this course and the link to the growth of democracy should accommodate certain inconvenient truths.

Growth in energy demand and the accompanying increase in carbon emissions are at their core evidence of good news. These are byproducts of economic growth that improves the lives of many and could support a virtuous circle for the development of peace and democracy. Increased energy efficiency can be part of that path, but reduced energy consumption *per se* would conflict with the growth agenda.

Uneven regional distribution of abundant low cost energy resources is a condition that governs other choices more than a problem that can be solved. There is little that we can do about the endowments of nature, and it is difficult to imagine a future where we do not exploit these substantial endowments of oil, natural gas and coal.

The world is not running out of oil and natural gas. “Over the next 25 years, risks above ground—geopolitical, technical, and infrastructure—are more likely to affect oil and natural gas production rates than are limitations of the below-ground endowment.”<sup>iii</sup> Hence, expanded trade of oil, natural gas and coal will continue for the foreseeable future with importers’ security of supply concerns matched by exporters’ symmetric interest in security of demand.

Energy security is largely a myth, and energy independence is a dangerous myth. For example, speaking to a domestic audience, the U.S. National Petroleum Council recently observed: “There can be no U.S. energy security without global energy security.”<sup>iv</sup> Geology and politics make the world deeply interdependent and policy should be crafted

to promote and secure energy *interdependence*. Real energy security comes from robust energy systems with diversity and flexibility, not through isolation and energy autarky.

International security is connected to energy, especially to oil and gas. Iraq's invasion of Kuwait was entangled with the advantages of acquiring control of energy reserves. The two Iraq wars that followed were motivated in part to prevent strategic use of oil revenues for purposes inimical to international security. Oil underground in the Middle East makes everything that happens above ground of greater importance for geopolitics and security. And the development of the nuclear alternative to oil and gas raises profound security concerns dealing with proliferation of nuclear weapons.

There will be a major overhaul of global energy supply and demand to support economic growth and mitigate impacts of global warming. There are ample potential sources of energy. Unfortunately, alternatives available today are costly compared to oil, gas and coal. Global change will not come cheaply, and there is no single answer to the question of how to meet future energy needs. Energy efficiency, traditional fossil fuels, renewable energy supply, nuclear energy, carbon sequestration, and so on, must all play a role.

Democracy is important in providing diverse benefits independent of economic growth. In addition, comparison of the effects of transitions to democratic regimes finds they provide at least a short run spurt to growth and reduce economic volatility.<sup>v</sup> Going further, Mandelbaum presents a strong case for a connection between democracy and a free-market economy, broadly conceived. Identifying the components of democracy as liberty (to include property rights), civil society, and popular sovereignty, Mandelbaum argues that the free-market economy is an essential ingredient for building the institutions and traditions of liberty, and hence democracy.<sup>vi</sup>

A notable problem for energy and markets is the behavior of rentier states where the benefits of natural resource wealth support corruption and allow governments to operate without building the institutions that lead to democracy. Prominent cases are those of oil and natural gas producers, which admit substantial wealth under the "resource curse" of control by government without the need to develop other sectors of the economy built on free markets or to create a middle class that provides the framework for transitions to democracy.<sup>vii</sup> For countries like Norway, with well established institutions and economies, oil wealth is not a resource curse. But for many countries, including quite wealthy oil producers, the sad syndrome of the resource curse is all too evident. The failure of broader economic development and the attendant growth in liberty burden the citizens and threaten everyone's energy security. Populist policies to subsidize domestic energy use or expropriate foreign investment look attractive in the short run, but create costs and development barriers that impose burdens on these countries in the long run.

Going forward, an organizing principle would be to strive to make energy more like an ordinary commodity. Capturing energy wealth for citizens is an obligation of governments, but it is not synonymous with creating government monopolies in the energy sector. Commercialization of state-owned companies and resources is better than treating energy as a strategic sector. Providing transparency of revenue flows and stabilization through investment funds would help towards mitigating the resource curse. Liberalizing energy markets is better than just commercialization. Integrating energy in normal trade relations would be important in advancing the robustness and flexibility of

the energy system. Regulating energy in ways that support markets would minimize the brittleness and inefficiency that come from government control.

European Union policy to liberalize and integrate energy markets is an example of moving in the right direction. The technical details of markets and institutions, especially in the case of electricity, are formidable but do not present insurmountable obstacles. But success depends in part on Russian adoption of compatible policies for trade in natural gas and oil. Recent concern over threats to energy security arising through Russia's expansion of government control of its energy sector and disruption of supply to its subsidized neighbors illustrates the dangers of energy politicization and the advantages of making energy a normal traded commodity and not a strategic asset.

Global warming is the ultimate problem of the commons. High emissions create concentrated benefits now and dispersed costs later. Mitigating the emissions of greenhouse gases depends on the actions of all countries. Among the failures of governments has been a lack of sufficient public support for research and development to identify new technologies and facilitate technology transfer. Meeting the growing demand for energy will require new low-carbon alternatives. If we are going to use fossil fuels, carbon capture and sequestration would be an essential component, but there is much that is not known about this technology. There should be high priority for funding research and large scale testing of new technologies, especially carbon capture solutions.

The rise of China and its integration in the world system should include regularization of its participation in energy markets. At the same time, China must recognize and participate in controlling greenhouse gases. "China is by far the biggest contributor to incremental [CO<sub>2</sub>] emissions, overtaking the United States as the world's biggest emitter in 2007."<sup>viii</sup> India is not far behind. Action is needed now to begin to put a price on carbon and allow for the orderly development of market-friendly solutions to mitigate emissions and stabilize the concentration of carbon. Without the participation of China, India and the United States, emission control is going nowhere. Even with the participation of these countries, major new initiatives will be required. To the extent that governments treat energy as a strategic sector and politicize major investment decisions, everything will be harder, including meeting the challenges of global warming. Treating energy more like a normal commodity, facilitating market solutions that get the prices right, and promoting democracy could be mutually reinforcing.

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<sup>ii</sup> International Energy Agency, "World Energy Outlook 2007," Paris, November 7, 2007.

<sup>iii</sup> National Petroleum Council, "Facing Hard Truths about Energy," Washington, D.C., 2007, p. 18.

<sup>iv</sup> Ibid., p. 6.

<sup>v</sup> Dani Rodrik and Romain Wacziarg, "Do Democratic Transitions Produce Bad Economic Outcomes?," *AEA Papers and Proceedings*, Vol. 95, No. 2, 2005, pp. 50-55.

<sup>vi</sup> Michael Mandelbaum, *Democracy's Good Name*, Public Affairs, New York, 2007.

<sup>vii</sup> Michael L. Ross, "Does Oil Hinder Democracy?," *World Politics*, April 2001, pp. 365-361.

<sup>viii</sup> International Energy Agency, "World Energy Outlook 2007," Paris, November 7, 2007, p. 50.