

U.S. ENERGY POLICY AND THE PRESUMPTION OF MARKET FAILURE

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Over the last 35 years, the U.S. government has embarked on several major projects to spur the commercial development of energy technologies intended to substitute for conventional energy resources, especially fossil fuels. Those efforts began with the 1973 energy crisis when President Nixon became the first U.S. leader to announce a plan for energy autarky. Presidents Ford and Carter followed Nixon's "Project Independence" with similar pledges. But beginning with Ford's 1975 energy act, plans for energy independence were tied directly to the development of new, alternative energy technologies. Under President Carter in particular, the federal government embarked on highly publicized, heavily funded efforts at developing new technologies with specific timetables for commercial entry and, in a few cases, a timetable for mass market substitution. Current mandates for ethanol and other biofuels fit this latter objective.

The presumption underlying government alternative energy programs, including the ethanol program, is that voluntary market action is insufficient to develop new energy sources. Therefore, government has to step in to induce the technological development the market fails to create. Only through government intervention, according to this logic, can the market failure be corrected and the

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