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The Politicized Light Bulb

Why are some Americans upset with attempts to encourage more energy efficiency in their homes?

Economic Efficiency

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There is no need to plumb the murky depths of sociology or psychology to explain why Americans are less enthusiastic about energy efficiency and conservation than are Europeans. Energy prices are higher abroad than they are here, which naturally leads to more market demand, and political demand, for energy-efficient products and services abroad than here.

Americans rightly value both economic efficiency and liberty. In most cases these two values are well served by markets in which individuals are free to choose what products they buy and how those products are used. Only when prices fail to reflect the full cost of a good or service does liberty and efficiency diverge.

If you want people to use energy-efficient appliances, increase electricity prices and let the market react.

Some argue that consumers incorrectly trade off higher initial product costs and lower operating expenses, and that standards simply reflect the outcome consumers would choose if they understood how much money they would save by buying this or that energy-efficient appliance. But if “better mousetraps” save consumers money over a reasonable time, then manufacturers certainly have adequate incentives to advertise this fact to augment sales.

Moreover, the contention that consumers as a whole act irrationally even when accurate price signals are in play is simply a variation of the broader argument that bureaucrats can more efficiently allocate goods than market actors. We know as a general matter that this isn’t true, so skepticism is in order.

Others argue that water and electricity prices are too low because they do not reflect total production costs, especially the costs associated with environmental damages. Standards thus reflect the types of products that consumers would buy if prices were higher to reflect those costs.

The argument is plausible but overstated. Recent estimates by economists suggest that electricity prices would have to increase by 1.4 cents per kilowatt hour from their current 9.1 cents per kilowatt hour to account for environmental damages. That’s not enough to make it economically worthwhile to buy many of the energy-efficient appliances and lights bulbs adored by the would-be regulators.

Regardless, the best way to address this problem -- if that’s what we’re going to do -- is to simply increase electricity prices via some sort of tax to get prices “right” and then let market actors decide how to most efficiently react. Appliance standards are less effective because they affect only a subset of electricity consumers. Moreover, by reducing appliance operating costs, the standards actually induce more electricity use relative to a scenario with higher prices.

Conservation may indeed be worthwhile for some (or many), and they are free to purchase products that reflect that. But governmental coercion should not be used to impose this goal on others. Prices that reflect costs are incentive enough.

Topics: Environment, energy, light bulbs