

Extra Feature Story

U.S. Economy's Troubles Hurt Alternative Energy Plans

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As the economy falters, investment money dries up, demand for gas goes down and oil prices fall, causing advocates for more American alternative energy sources to worry that previous excitement for new energy technology will be lost.

While the high price of oil over the summer made alternative energy and renewable fuels more attractive to Americans, the plunge in the stock market and a drop in oil prices put those incentives at risk, according to The New York Times.

Furthermore, while both major-party presidential candidates, Sens. John McCain and Barack Obama, have made alternative energy proposals a central part of their campaigns, there is debate about whether they would be able to fund their ideas while paying for a bank bailout and coping with falling tax revenues.

"Government funding for (renewable energy) is now going to have to compete with levels of government funding in other areas that were unimaginable six months ago," Mark Flannery, an energy analyst for Credit Suisse, told the New York Times.

Oil prices stifle change

Because so much of the world economy depends on oil – transportation, heating, energy – the price of oil is tied to how investors think the overall economy is performing. As the world enters a possible global economic slowdown, or recession, the price of oil has dropped dramatically from the summer of 2008.

OPEC, a group of twelve countries in the Middle East, Africa and South America, announced on October 24 that they were going to produce 1.5 million less barrels of oil a day. This is an effort to limit supply and therefore drive up the price of oil.

The same day, the price of oil fell to \$62 a barrel, the lowest price in 17 months, and half as high as it was in July.

"Recession fears and uncertainty continue to haunt global markets, while tight credit conditions threaten new energy projects all over the world," market analyst Nimit Khamar told the Agence France-Presse news organization.

While oil's lower price makes it cost less to fill a car with gasoline, it also means that many people won't be concerned enough to buy a car that gets better miles per gallon, or experiment with electric cars or wind and nuclear power.

Capital problem

Concern about fossil fuels causing global warming and the fact that most oil reserves are located in unstable parts of the world have encouraged Americans to find new sources of energy, but businesses need capital – money - to make widespread alternative energy a reality.

Banks and investors are afraid to loan to each other, and that means less lending to companies who want to develop wind and solar.

And as the price of oil falls, investors are nervous that new types of energy would not find enough of a market to make money.

Investments in new wind, solar and biofuel projects dropped from \$23.2 billion in the second quarter of the year to \$17.8 billion in the third quarter, with a larger slide expected for the fourth quarter, the New York Times reported.

Candidates may face changes

Both Barack Obama and John McCain agree that global warming and America's dependence on foreign oil are problems.

Obama promises to spend \$150 billion over 10 years to help invest in alternative energy sources, which he says will create 5 million new jobs. He wants 10 percent of America's electricity to come from alternative fuels by 2012.

McCain's plan focuses on expanding oil drilling in America, a \$5,000 tax credit for people who buy a zero-carbon emission car, and expanding the number of nuclear power plants, in addition to other tax credits and cuts to encourage alternative energy sources.

But as the economy tanks and people spend and make less money, the government will collect less revenue in taxes, making it harder to fund expensive alternative fuel projects, while still paying for basics such as roads, schools, courts and the military.

During the presidential debates, however, both candidates refused to name which projects they might cut from their proposals.

-- Compiled by Quinn Bowman for NewsHour Extra

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