Oil and gas communities are a blind spot in America's climate and economic policies

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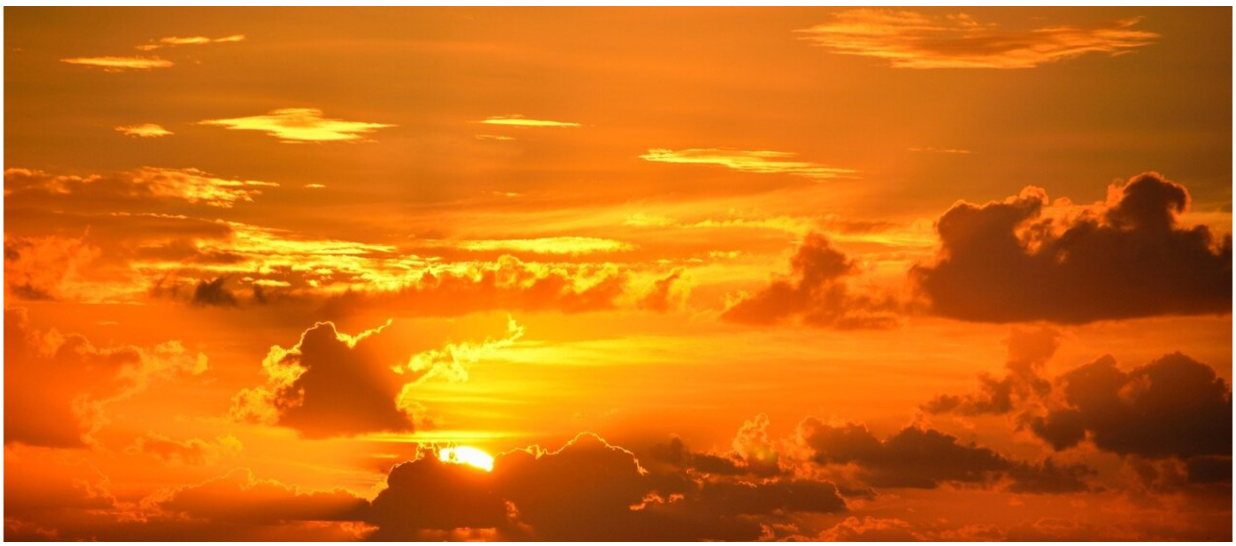

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On a recent visit to Rangely, a small town in northwest Colorado, my colleagues and I met with the administrators of a highly regarded community college to discuss the town's economy. Leaving the scenic campus, we saw families driving into the mountains in off-road vehicles, a favorite activity for this outdoors-loving community. With a median household income above US$70,000 and a low cost of living, Rangely does not have the signs of a town in economic distress.

But an existential risk looms over Rangely. The town is here because of an oil boom during World War II. Today, the oil and gas industry contributes over half of the county's economic output.

Rangely is not unique in the United States, which is the world's largest producer of oil and natural gas. There are towns across the country that depend on the oil and gas industry for well-paying jobs and public revenues that fund their schools and other critical services.

A heavy dependence on any single industry is risky, and the oil industry is prone to booms and busts. But the economies of oil- and gas-dependent towns face a unique threat from global efforts to address the risks of climate change, which is fueled by the burning of oil and natural gas. Any serious strategy to halt global warming involves policies that will, over time, sharply reduce demand for all fossil fuels.

Early signs of this transformation can be seen in last year's international agreement to "transition away from fossil fuels" and in the spread of electric vehicles that are starting to displace gasoline- and diesel-powered cars, trucks and buses.

As an economist who worked at the White House during the Obama administration and early Biden administration, I contributed to detailed strategies to reduce greenhouse gas emissions and to support communities in economic distress. But we did not have a plan to prepare oil and gas towns like Rangely for future economic challenges.

Why oil and gas towns are overlooked

Congress has prioritized support for small towns in recent legislation. However, oil- and gas-dependent towns were largely absent from these strategies for three primary reasons.

First is a perceived lack of urgency. The attention to a "just transition" as the nation moves away from fossil fuels has been disproportionately directed to coal-dependent communities. U.S. coal production has declined for 15 years, and a continued transition away from coal appears imminent and inevitable.

In contrast, U.S. production of oil and natural gas continues to grow. To be sure, some oil and gas communities are already struggling. But the widespread economic risks of a shift away from oil and gas may feel more like a problem for future decades.

Second, politicians downplay risks to oil and gas communities.

Most Republicans are not planning for a future decline in oil and gas production at all, and that includes many local politicians in oil and gas-dependent communities. For their part, most Democratic politicians prefer to focus on how climate action can be an engine of future economic growth. President Joe Biden likes to say, "When I think about climate change, I think jobs."

He is not wrong to highlight the economic opportunities of climate solutions. But clean energy jobs rarely offer one-for-one replacements for the high-paying jobs in the oil and gas industries and the public revenues those industries bring local communities.

Third, economists' policy toolbox is poorly suited to the challenges facing oil and gas communities.

Proposals to support local economic development commonly suggest targeting persistently distressed local economies with measures such as wage subsidies that have the potential to rapidly put more people to work.

A different prescription is needed for oil and gas communities, which are not generally struggling today. Over the 15-year period prior to the pandemic, the U.S. counties with oil and gas production experienced average annual GDP growth of 2.4% per year, compared with 1.9% nationwide.

Most oil and gas communities do not need economic stimulus policies that provide immediate relief. What they need are holistic economic development strategies that can cultivate new industries—building on their existing strengths—that will enable them to prosper into the future.

Solutions to help oil and gas towns prepare

Harvard economist Ricardo Hausmann compares the challenge of developing new economic capabilities to the game of Scrabble, where each additional letter enables the creation of more words. He cites the Finish economy as an example: It evolved from harvesting lumber to making tools that cut wood to producing automated cutting machines. From there, it evolved to sophisticated automated machines, including those used by global corporations such as telecommunications giant Nokia.

Such economic evolutions must be tailored to the characteristics of individual places. But the initial step is to recognize the problem and invest in solutions.

The Southern Ute Indian Tribe is doing this in southwest Colorado. It devotes oil and gas revenues to a Permanent Fund, which promotes fiscal sustainability by ensuring the tribe's assets are aligned with its long-term financial goals, and a Growth Fund that diversifies the tribe's revenue sources by investing in a range of businesses.

At the national level, a recent National Academies panel proposed the creation of a federally chartered corporation to help communities facing acute economic threats, including a future decline in oil and gas. This corporation could provide funding for displaced workers, critical public infrastructure and programs that ensure access to economic opportunities.

Colorado's state Office of Just Transition has started to serve this role. Currently, it focuses only on the transition away from coal, with the goals of helping communities develop new economic opportunities and helping workers transition to new jobs. But its mission could be expanded in the future. In fact, Rangely is already receiving some support due to coal closures nearby.

No one-size-fits-all solution

Small, rural towns like Rangely illustrate how oil- and gas-reliant regions will need unique strategies tailored to the strengths and limitations of individual places. No off-the-shelf playbook exists.

Our group of researchers who visited Rangely are part of the Resilient Energy Economies initiative, which was created by universities, research institutes and philanthropic organizations to ensure that policymakers have the information they need to help fossil fuel-dependent communities successfully navigate the energy transition.

The best time to build a more resilient economy is before a crisis arrives. Anyone familiar with the Bible—or Broadway—knows the story of Joseph, whose dreams foresaw seven years of abundance for Egypt followed by seven years of famine. The pharaoh acted on Joseph's vision, using the boom to prepare for the bust.

The United States is experiencing abundant oil and gas production today. Policymakers know risks are coming. But so far, the country is failing to prepare communities for harder days to come.

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