American Energy Policy, Asleep at the Spigot (The New York Times)

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Correction Appended

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JUST three years ago, with oil trading at a seemingly frothy $66 a barrel, David J. O'Reilly made what many experts considered a risky bet. Outmaneuvering Chinese bidders and ignoring critics who said he overpaid, Mr. O'Reilly, the chief executive of Chevron, forked over $18 billion to buy Unocal, a giant whose riches date back to oil fields made famous in the film "There Will Be Blood."

For Chevron, the deal proved to be a movie-worthy gusher, helping its profits to soar. And while he has warned about tightening energy supplies for years and looks prescient for buying Unocal, even Mr. O'Reilly says that he still can't get his head around current oil prices, which closed above $145 a barrel on Thursday, a record.

"We can see how you can get to $100," he says. "At $140, I just don't know how to explain it. We're surprised."

For the rest of the country, the feeling is more like shock. As gasoline prices climb beyond $4 a gallon, Americans are rethinking what they drive and how and where they live. Entire industries are reeling - airlines and automakers most prominent among them - and gas prices have emerged as an important issue in the presidential campaign.

Ninety percent of Americans, meanwhile, expect the pain at the pump to pose a financial hardship in the next six months, according to a recent Associated Press-Yahoo News poll. Stocks now trade inversely to crude prices, and the Dow Jones industrials are in bear-market territory. Old icons have been written off, with Starbucks boasting nearly twice the market value of General Motors, which some on Wall Street say faces the possibility of bankruptcy.

Outside the thriving oil patch, it makes for a bleak economic picture. But it didn't have to be this way.

Over the last 25 years, opportunities to head off the current crisis were ignored, missed or deliberately blocked, according to analysts, politicians and veterans of the oil and automobile industries. What's more, for all the surprise at just how high oil prices have climbed, and fears for the future, this is one crisis we were warned about. Ever since the oil shortages of the 1970s, one report after another has cautioned against America's oil addiction.

Even as politicians heatedly debate opening new regions to drilling, corralling energy speculators, or starting an Apollo-like effort to find renewable energy supplies, analysts say the real source of the problem is closer to home. In fact, it's parked in our driveways.

Nearly 70 percent of the 21 million barrels of oil the United States consumes every day goes for transportation, with the bulk of that burned by individual drivers, according to the National Commission on Energy Policy, a bipartisan research group that advises Congress.

SO despite the fierce debate over what's behind the recent spike in prices, no one differs on what's really responsible for all that underlying demand here for black gold: the automobile, fueled not only by gasoline but also by Americans' famous propensity for voracious consumption.

To be sure, the American appetite for crude oil is only one reason for the recent price surge. But the country's dependence on imported oil has only kept growing in recent years, undermining the trade balance and putting an added strain on global supplies.

Although the road to $4 gasoline and increased oil dependence has been paved in places like Detroit, Houston and Riyadh, it runs through Washington as well, where policy makers have let the problem make lengthy pit stops.

"Much of what we're seeing today could have been prevented or ameliorated had we chosen to act differently," says Pete V. Domenici, the ranking Republican member of the Senate Energy and Natural Resources Committee and a 36-year veteran of the Senate. "It was a bipartisan failure to act."

Mike Jackson, the chief executive of AutoNation, the country's biggest automobile retailer, is even more blunt. "It was totally preventable," he says, anger creeping into his affable car-salesman's pitch.

The speed at which gas prices are climbing is forcing a seismic change in long-held American habits, from car-buying to commuting. Last week, Ford Motor reported that S.U.V. sales were down 55 percent from a year ago, while demand for its full-size F-series pickup, a gas guzzler that was the country's best-selling vehicle for 26 consecutive years, is off 40 percent. The only Ford model to show a sales increase was the midsized Fusion. A Ford spokeswoman says the market shift is "totally unprecedented and faster than anything we've ever seen."

If the latest rise in oil prices isn't just another spike - like those of the 1970s and 1980s - but is instead a fundamental repricing of the commodity responsible for much of modern American life, the impact of that change will affect everyone from home builders and homeowners in exurbs to corporate leaders, landlords and commuters in cities.

Although Asian consumers have begun emulating America's love affair with the automobile, with the commercial booms of China and India playing pivotal roles in increased oil demand, the largest energy appetite in the world is still found in the United States. Home to only 4 percent of the world's population, the nation slurps up about a quarter of the planet's oil - and Americans' daily use is nearly twice the combined consumption of the Chinese and Indians, according to an annual energy survey published by BP, the British oil giant.

Indeed, low-priced gasoline has long been part of the American social contract, according to Newt Gingrich, the former House speaker and Republican leader. While in office, Mr. Gingrich battled efforts to modulate demand through tools like increased gas taxes and tighter fuel standards, and he argues that voters won't support such measures even now.

"They will work if you coerce the entire system and if you pretend the American people are Japanese and Europeans," Mr. Gingrich says. "Our culture favors driving long distances in powerful vehicles and the car as a social expression."

Perhaps, but on Capitol Hill, members of both parties now say they are furious with Detroit for fighting so hard, and for so long, against higher fuel-efficiency standards.

Though analysts say automakers who shoveled out highly profitable and highly inefficient road hogs like S.U.V.'s and pickups deserve much of the blame, they also criticize legislators who failed to provide an incentive for consumers to switch to fuel-sipping cars. Some politicians are quick to acknowledge the problem.

"We've got to fix it or our standard of living will change within a decade," says Senator Domenici, who is retiring this year. "Oil was too damn cheap, it's too high now and it's going even higher. I hope I'm wrong, but the problem is, we can't catch up soon enough."

According to energy policy experts, it was in the late 1980s and early 1990s - during the administrations of President George H. W. Bush and Bill Clinton - that things began to go wrong.

Before that point, the country reaped the benefits of the first fuel-economy standards, passed in 1975, known as corporate average fuel economy, or CAFE. Between 1974 and 1989, the efficiency of a typical car sold in the United States almost doubled, to 27.5 miles per gallon from 13.8.

LARGELY as a result, oil consumption in 1990 totaled 16.9 million barrels per day, basically on a par with the 17 million barrels per day consumed in 1980, even as the economy grew substantially. Oil prices were in the middle of a long downward slide that would take them from well above $30 a barrel in 1980 to a low of just under $10 in late 1998 and early 1999, interrupted only by brief spike in 1990 after Iraq's invasion of Kuwait.

In 1990, Richard H. Bryan, a Nevada Democrat, teamed up in the Senate with Slade Gorton, Republican of Washington, and proposed lifting fuel standards again over the next decade, with a goal of 40 m.p.g. for cars. Amid furious opposition from Detroit, liberal Democrats from automaking states, like Carl Levin of Michigan, joined conservative Republicans like Jesse Helms of North Carolina, who died on Friday, to block new CAFE standards. "It was one of the most frustrating issues in my Senate career," says Mr. Gorton, who left the Senate in 2001.

Dan Becker, then a lobbyist for the Sierra Club, still remembers his shock when he saw Mr. Levin and Mr. Helms, diametrically opposed on most issues, walk amiably together onto the Senate floor to cast their votes. "This wasn't East-West, right-left, or North-South," he says. "But had we passed that bill, we'd be using three million barrels less oil a day now."

That amount may not sound like much, given total global consumption of 85 million barrels a day, but it's more than OPEC's spare capacity now.

Mr. Levin didn't return calls for comment. But Representative John D. Dingell, the powerful Democrat from Detroit who chairs the House Energy and Commerce Committee, argues - as he did more than a decade ago - that tightening CAFE standards unfairly penalizes domestic automakers while rewarding foreign rivals who make more small cars.

Mr. Dingell, who has defended the automakers fiercely during his 52 years on Capitol Hill, decided to support the stronger CAFE standards last year. But he does not apologize for his longtime stance. "The American auto industry has sold the cars people wanted," he says. "You're going to blame the auto industry for that or the American consumer? He likes it sitting in his driveway, he likes it big, he likes it safe."

A much more effective approach would be to simply raise taxes on gasoline, Mr. Dingell says, because higher prices are the easiest way to change buying habits. Some Europeans agree with this, noting that policy changes engineered through taxation can alter consumer choices without impeding economic growth.

Consumers overseas might not like higher taxes on gasoline, but they've adapted, says Jeroen van der Veer, chief executive of Royal Dutch Shell, the European energy giant. "A society can work, can function and can grow even at higher fuel prices," he says. "It's a way of life - you get used to it."

In Mr. van der Veer's native Holland, for example, gasoline sells for more than $10 a gallon, with $5.57 of that going to taxes. Even in Britain, which has substantial North Sea production, gasoline sells for $8.71 a gallon.

A SUBSTANTIAL gas tax increase was considered during the administration of the first President Bush, recalls William K. Reilly, who ran the Environmental Protection Agency at the time. But it was whittled down in 1990 to just 5 cents after Mr. Gingrich and other conservatives in the Republican Party broke with the president.

"This was a stark lesson and people decided the gas tax was the third rail of public policy," Mr. Reilly says.

Even as Congress idled when it came to tightening CAFE standards or substantially raising levies on gas, the Exxon Valdez oil spill in 1989 made offshore drilling yet another unpalatable option. "That caused a sea change and after that no one had any sympathy for the oil industry," Mr. Becker says.

In 1990, three months before the effort to raise fuel-efficiency standards failed on Capitol Hill, President Bush issued an executive order making large swaths of the continental shelf off-limits to new exploration. That policy remains in effect today.

When Senators Charles E. Schumer, a New York Democrat, and Frank H. Murkowski, an Alaska Republican, attempted to put together a grand bargain of opening up more of Alaska in exchange for raising auto efficiency in 1998, the two couldn't persuade enough members of either party to go along.

"It was a no-action policy," says Lee R. Raymond, the former chief executive of Exxon Mobil, who has had a ringside seat for most of the energy policy debates of the last 25 years. "By the time there is panic, people need to realize this: There is no quick-fix on this. By the time you panic, it is way too late."

Still, many analysts argue that increased drilling alone is no panacea. They note that many of the oil giants don't drill in areas to which they already have access. Exxon, in particular, has been criticized as spending too much to buy back its own stock and not enough on exploration. Chris Welberry, a spokesman for Exxon Mobil, defends the company's record, saying, "We are investing in our business at record levels - around $25 billion this year."

In any event, added drilling is unlikely to generate sharply lower prices. A recent study by the federal government's Energy Information Administration estimated that under the best-case scenario opening up the Arctic National Wildlife Refuge would reduce prices by $1.44 a barrel by 2027. Drilling in broader swaths off the continental United States wouldn't affect prices until 2030.

On the taxation frontier, President Clinton did manage to get through a small tax increase on gasoline - 4.3 cents - in 1993, but with oil prices hovering between $10 and $20 a barrel for most of the 1990s, conservation ended up on the back burner.

Indeed, President Clinton did propose a broader tax on energy consumption in 1993, but it died quickly when Senate Democrats rebelled, much as House Republicans derailed President Bush's gas tax in 1990. Still, environmentalists like Mr. Becker remain disappointed with Mr. Clinton for not doing more in his first term when oil prices were low and Detroit was enjoying a recovery in profits after the lean years of the early 1990s.

Congressional Republicans made matters worse in 1995, when they attached a rider to a huge appropriations bill forbidding the National Highway Traffic Safety Administration from spending any money to raise fuel standards. That law, in effect until 2001, made any change in CAFE standards impossible, says Representative Edward J. Markey, a Massachusetts Democrat who has pushed for better fuel efficiency.

As Paul Bledsoe, strategy director of the National Commission on Energy Policy, recalls it, "The 1990s were something of a lost decade for American fuel efficiency." With oil prices low, consumers began snapping up pickup trucks and sport utility vehicles, which were governed by less stringent fuel economy standards, thanks to a loophole in the original 1975 law. These carried higher sticker prices and profit margins, and both Detroit and foreign automakers were happy to oblige.

Although oil prices remained low through the 1990s, consumption patterns were taking an ominous turn. By 2000, daily demand reached 19.7 million barrels a day - nearly three million more than in 1990, a 17 percent jump in 10 years that wiped out much of the fuel savings that followed the energy crises of the 1970s.

Since then, global consumption has taken off, rising to 85.2 million barrels a day last year from 76.3 million in 2000.

In recent years, Mr. Reilly says that both the White House and Congress have passed up opportunities to call for higher gas taxes and fuel standards in the name of national security, especially after the Sept. 11 attacks. "We could have, but we didn't," says Mr. Reilly, who describes himself as a moderate Republican. "It's part of a long pattern in which Democrats and Republicans have not wanted to wade into this issue."

BY 2001, oil prices were slowly creeping up, but few seemed to notice, perhaps because the march was slow and steady. By 2004, crude was at $37 a barrel and the next year it hit $50. With higher prices for oil, an increase in gas taxes was political poison, but Mr. Markey says support for new fuel standards was reawakening.

Nevertheless, his efforts to pass new fuel economy legislation in 2001, 2003, and 2005 went nowhere amid continued opposition by supporters of the auto industry on both sides of the aisle as well as many conservative Republicans. Although the United States had long ceased to be energy-independent - that era ended just after World War II - Mr. Markey says he believes the memory of plentiful domestic supplies created a different mind-set here than in Europe, where oil was generally scarce.

Other veterans of those battles cite lobbying by the domestic automakers as a main factor in the failure of Mr. Markey's legislation. "The auto companies didn't see the handwriting on the wall," Mr. Schumer says. "The auto companies would go to people and say, ‘If you vote for CAFE standards, the auto plant in your district could shut down.' They got the message."

Representative Mike Castle, a Delaware Republican whose district includes plants owned by G.M. and Chrysler, adds that "nothing was ever said directly but it would go through the minds of members that Detroit might respond."

"Sometimes, things don't have to be said," he added.

Susan M. Cischke, group vice president for sustainability, environment and safety engineering at Ford, says the recollections of Mr. Schumer and Mr. Castle are "way over the top - you don't just pull up or put down auto plants." Instead, she says, when lobbying on CAFE, "we talked with our friends and indicated what it did with jobs. You want support."

Oil industry insiders say they remained on the sidelines during Congressional debates over CAFE standards, although legislators from oil states tended to vote against more rigorous rules.

In 2007, with oil at $82 and gas nearing $3, Congress finally approved the first big increase in fuel-efficiency standards in 32 years, requiring the fleet average to reach 35 m.p.g. by 2020. That will save one million barrels a day by 2020, but onetime CAFE opponents like Mr. Castle now say they wish that Congress had acted sooner. Since the 1980s, fuel efficiency has flatlined at 24 m.p.g., while vehicle weight has jumped more than 25 percent and horsepower has nearly doubled. In Europe, on the other hand, fuel efficiency currently stands at 44 m.p.g. and is slated to hit 48 m.p.g. by 2012.

"It's a shame we're doing this now instead of 10 or 20 years ago," says Mr. Castle, who supported the legislation last year. "It was always my hope they would just do it without a mandate." He adds that while he still opposes drilling in Alaska, "Republicans aren't all wrong when they talk about increasing supplies of oil. There are opportunities in the Gulf of Mexico."

Senator Domenici, the senior New Mexico Republican, agrees that it's time to look at new supplies but is even more critical of Detroit. "They all said to us: ‘Don't change CAFE. It'll come when it's supposed to.' That's baloney," he said.

UNTIL last year's vote, Mr. Domenici was an opponent of new fuel-efficiency standards, a stance he now regards as a mistake. "We were like everybody else," he says. "We should have been more active on CAFE sooner."

With Detroit again seeing profits collapse as sales of big cars plunge, Mr. Domenici says he is worried about the survival of the domestic automakers.

"They talked a good research game," he says. "But let's face it, little was being done. They are suffering the consequences and could go broke just like the airlines."

What Congress didn't or couldn't do, the free market is now doing in the form of higher gas prices: forcing Americans into more fuel-efficient cars. Ms. Cischke of Ford says that in the last two months, "We have seen more of a shift in the market than in 20 years of CAFE. People are buying what they need."

Unfortunately, the shift is happening too fast for a company of Ford's size. That is among the reasons Wall Street expects Ford to lose more than $2 billion this year.

Congress, meanwhile, in its bid to explain the run-up in fuel prices, is examining the role of speculation and the increased flow of investor money into commodities. Most energy economists emphasize the fundamental issue of supply and demand, rather than market manipulation, but financial factors like the weak dollar are also exacerbating the situation. Stephen P. A. Brown, director of energy economics and microeconomic policy analysis at the Federal Reserve Bank of Dallas, estimates that a little more than 20 percent of the price of oil today can be attributed to the dollar's fall against the euro and other currencies.

Another financial factor behind the price rise that hasn't been talked about much on Capitol Hill or elsewhere is reduced hedging by oil companies on futures markets, says Larry Goldstein, a longtime energy analyst. In the past, crude producers would offer buyers a portion of their energy output in future years in order to protect themselves if prices pulled back. But energy companies got burned as prices kept rising during the last two years and have since cut back on selling untapped production - forcing prices for energy futures even higher.

Now, the prospect of a perpetual climb in oil prices has become part of market psychology, which is notoriously hard to change. William H. Brown III, a former Wall Street energy analyst who now consults for hedge funds and financial institutions, says investors have become convinced that the White House and Congress are unlikely to do anything dramatic to bring down prices.

For example, a release of supplies from the Strategic Petroleum Reserve after disruptions in Nigeria or Venezuela might have persuaded the market that Washington was on the case and shaken some complacency out of the market. "I've been a little surprised at what has not been done or what has not been talked about to get a handle on the consumer situation," Mr. Brown says.

Others say that although the push to blame market speculators rather than discuss economic realities is likely to intensify on Capitol Hill as the presidential election draws near, they believe that what the world is confronting is a momentous shift in energy supply and demand.

"Speculation and manipulation are two different things," says Mr. O'Reilly of Chevron. "Most of where we are is because of fundamentals and concern about the future."

Jad Mouawad contributed reporting.

This article has been revised to reflect the following correction:

Correction: July 6, 2008

An article today in Sunday Business about missed opportunities to reduce America's dependence on imported oil refers to a 1990 effort by Senator Jesse Helms, Republican of North Carolina,
to block higher mileage requirements for vehicles and notes that Mr. Helms did not return calls seeking comment. The section went to press on Thursday, before Mr. Helms's death Friday morning.