THE ORANGE COUNTY
REGISTER
ocregister.com

Wednesday, September 23, 2009

Mark Landsbaum: No fuel like an old fuel

Government efforts to change our energy usage through mandates and subsidies don't succeed. Meanwhile, fossil fuels defy dire predictions of their demise.

Mark Landsbaum

Editorial writer
The Orange County Register
mlandsbaum@ocregister.com

Every year local, state and federal lawmakers churn out hundreds of new laws most people are unaware of, even though they are obliged not to break any of them. Why?

One answer is that it's not necessarily *your* interest that lawmakers had in mind, especially when they single out particular beneficiaries. As Ronald Reagan said, "Government does not solve problems, it subsidizes them." For example, countless new laws are dear to environmentalists and to big-government string-pullers.

Two bills passed this year won't become law because Gov. Arnold Schwarzenegger vetoed them – not because he opposed the government mandates they would have imposed to switch a third of the state's energy production to "renewable energy." He liked that part. He simply prefers to do it his way, by administrative fiat.

Lawmakers wanted to reward California unions by insisting that two-thirds of the new jobs they hope to create must stay in the state. The governor, to his credit, discarded the protectionist card. But instead he rewarded unelected and unaccountable administrative bureaucrats at the state's Air Resources Board by granting them nearly unfettered control over writing rules for a similar new scheme. Make no mistake. This was intended to benefit the ever-expanding state regulatory bureaucracy as much as to

Advertisement

Print Powered By FormatDynamics

THE ORANGE COUNTY REGISTER
ocregister.com

provide renewable energy. The irony is that it's more likely to mean more bureaucracy than more renewable energy.

The bottom line is that energy sources otherwise uncompetitive and uneconomical in the open market will extract from taxpayers special considerations in order to force Californians to buy up to a third of their energy at what probably will be higher prices than otherwise, while simultaneously feeding another spurt of government growth.

The producers of this so-called renewable energy couldn't sell what they want to produce without mandates imposed by Mr. Schwarzenegger, or without taking your money in taxes to make it profitable.

Here's one of the problems with that approach: In 1979 President Jimmy Carter had similar visions of a national solar bank to generate 20 percent of the nation's energy by 2000, and of subsidizing ethanol manufacturing to wean us off foreign oil. Yeah, that didn't exactly work. Even with government mandates, government subsidies and government tax breaks.

All the good intentions and the mustered might of the federal government couldn't ward off the natural consequences when global oil prices dropped, deregulation of natural gas led to vast new fossil fuel supplies, and abundant cheap coal generated cheaper electricity.

"History teaches us that the government is not very good at getting the results it intends when it intervenes in complex markets subject to violent price fluctuations," writes Ronald Bailey in Reason Magazine.

And then there's this: Whatever the intentions and lofty goals, once a law is passed, the games begin in earnest. Insiders and special interests find ways to game the system to their benefit.

Those seem like good reasons to adopt no more ill-fated laws that benefit only government regulators, subsidized interests and those sly enough to game the system. Nevertheless, another round of biofuel subsidies in Washington has been under way for some time, almost as if Jimmy Carter's scheme had never failed.

"The biofuels revolution that promised to reduce America's dependence on foreign oil is fizzling out," Ann David and Russell Gold wrote recently in the Wall Street Journal. "Two-thirds of U.S. biodiesel production capacity now sits unused, reports the National Biodiesel Board. Biodiesel, a crucial part of government efforts to develop alternative fuels for trucks and factories, has been hit hard by the recession and falling oil

Advertisement


Print Powered By FormatDynamics

THE ORANGE COUNTY
REGISTER
ocregister.com

prices. The global credit crisis, a glut of capacity, lower oil prices and delayed government rules changes on fuel mixes are threatening the viability of two of the three main biofuel sectors – biodiesel and next-generation fuels derived from feedstocks other than food."

Déjà vu.

No government central planner, no matter how much authority he's given, no matter how much of your tax money he takes, can anticipate, let alone control, the countless economic factors that come into play in the market.

Four decades ago we were assured the Earth was running out of oil. But such prognostication is limited by information on hand, and the contemporary state of the art of crystal-ball gazing. And as the CATO Institute's Julian Simon explained, when oil demand and prices rise, so do economic incentives to invest in new technologies that lead to more oil discoveries and extractions. As petroleum geologist Wallace Pratt put it, "Oil is found in the minds of men."

British Petroleum recently reopened debate about when the world will reach its "peak oil" supply, the point after which reserves only diminish. The reassessment comes because the oil company made "a big new discovery in the Gulf of Mexico which some believe could be as large as … the biggest field ever found in the North Sea," reports the UK's Guardian. So much for predictions of exhausted reserves.

Brazil, meanwhile, is poised to become one of the world's largest oil producers after discovering a "supergiant" field of up to 2 billion barrels of recoverable reserves.

If that doesn't complicate central planners' lives, consider that researchers at Sweden's KTH Royal Institute of Technology recently proved that raw oil and natural gas don't have to come from fossils, which means "it will be much easier to find these energy sources and that they may be located all over the world."

What effect would vast new reserves of untapped oil have on world energy markets? It's just a hunch, but we doubt that more plentiful, cheap fossil fuels would drive up stock prices for solar and wind generation plants. Or for biofuels.

Nevertheless, government seems certain. Of course, government gambles on its *certainties* with your money, not its own. Government has no money except that which it takes from you.

There, indeed, may be more new, economical alternative forms of energy yet to be discovered. But every time government

Advertisement

Print Powered By FormatDynamics™

THE ORANGE COUNTY
REGISTER
ocregister.com

adopts new laws *requiring* resources, purchases and subsidies, it commits money that definitely can't be used to explore other options.

Moreover, when arbitrary government mandates control success or failure, even preferred partners ultimately are at the mercy of government policy-makers. Witness Spain. "After years of breakneck growth," reports a Morningstar market analyst, recent decisions to cap the world's largest solar subsidy program at 500 megawatts will shrink Spain's solar market at least 80 percent this year. Live by government subsidy, die by it.

Government preferences, tax breaks, subsidies and mandates constitute a sort of "public option" when it comes to energy, similar to the contrived "public option" in proposed health care mandates. These public options don't really provide competition. Because they operate on propped up economics and preferential treatment, they drive competitors out of the market.

Government bureaucracies may thrive, and favored producers may profit, at least until their subsidies run out, ala Spain. But there are consequences for the rest of us.

And, there's this, too: "No government ever voluntarily reduces itself in size. So, governments' programs, once launched, never disappear. Actually, a government bureau is the nearest thing to eternal life we'll ever see on this Earth." Yep. Mr. Reagan again.

Contact the writer:
mlandsbaum@ocregister.com or 714-796-5025

Advertisement


Print Powered By FormatDynamics™