

Re: Viable hydrogen vehicle by 2010

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tkalbfus1@aol.com (Tkalbfus1) wrote in message
news:<20040924025842.20420.00000110@mb-m01.aol.com>...
> > *Shifting the cost of something to the government doesn't reduce the*
> > *cost. In most cases, there's a premium to be paid in having the*
> > *government handle it.*
> >
>
> *But it does make the cost more bearable.*

You're not getting it. The cost of doing something is the cost of doing something. Period. That cost *must* be paid or the thing won't get done.

> *A hydrogen subsidy can be paid for by*
> *a progressive income tax that puts more burden on the wealthy than on the*
> *Middle and lower classes.*

This merely shifts the cost it doesn't change the cost. In fact, there's a premium to be paid when costs are shifted in this way. Hiding the true cost of a thing might be defensible if there are important social benefits. Things like education, or the mails provide such benefits. Medicine some would argue has the potential to pay huge social benefits as well. There's just no similar benefit that you can mention for energy.

Energy is a strategic resource. That means its cost impacts the rate at which the economy grows or doesn't grow. Look at the price changes over the past 30 years following the rise of OPEC. There is a clear correlation between the cost of primary energy and the rate of economic growth. Plainly providing a subsidy that hides the true cost of a technology that in the end increases the cost of energy is a recipe for economic disaster.

> *I would consider it part of the defense budget.*

Today there are other costs that haven't been considered in the past. This is reflected by the run-up in cost of energy – \$50 per barrel oil for example – this is likely to cause a dramatic tightening of the US

and other industrial economies. Subsidising alternatives might have some political support following 9/11 – but it won't help the economy.

It won't even help the alternative energy business build infrastructure we really need. It will cause the market to respond to the subsidy and remain uneconomic far longer than it otherwise might.

- > > *So, to ask the government to solve our energy problem by subsidizing*
- > > *uneconomic processes is worse than doing nothing. It perpetuates*
- > > *patterns of abuse that waste resources the market would otherwise put*
- > > *to better use. The recent history of coal conversion is a good*
- > > *example of this;*
- > >
- > >
- > >
- > *The government can plan ahead, the market cannot.*

Not true. In fact, quite the reverse. Ken Arrow proved in the 1950s that it is impossible for governments to make rational collective choice – thus explaining voting cycles. That is, not only does government fail on occasion, government cannot do what we expect it to do. This is akin to telling the King in the middle ages there is no God and therefore no royal rights of kings. God wasn't doing in the middle ages what people thought God was doing to assure good governance, and voting doesn't do today what people think good government is capable of.

There are no good alternatives. Arrow's theorem is not prescriptive – so it does not tell us how to fix the problem, but shows us quite definitely a problem exists – we CANNOT make rational collective choices.

On the other hand, markets do work – because they have emergent properties. When humanity hits on a system of governance that actually works, it will more likely than not have elements of market interaction within it – it will be a system of interaction that will cause rational outcomes to emerge from those interactions (without voting which necessarily destroys needed information for making rational choice)

- > *Energy is a strategic*
- > *resource,*

Yes it is, so while you can hide the true cost of it you cannot hide the EFFECT OF THE TRUE COST – the true cost is what it is, and that MUST be paid somewhere along the line – and that has serious strategic results – leading to a decline in economic activity if the cost is too high. So, subsidizing inefficient means of production of energy is the absolute worst thing one can do to bring about effective long-lasting change.

- > *and it would not do to have a foreign power suddenly cut it off and*
- > *disrupt our economy.*

Our current system of industrial nation states relies on the smooth functioning of international trade – including the international trade of energy. The failure of that trading regime means an end to the world as we know it. It is the role of the US Navy to secure the basis of free-trade around the world for this reason.

- > *I think its worth a higher price for converting to*
- > *hydrogen if we can preclude this from happening. You want another example:*

You might think things are worth it, but unfortunately, your thinking something is worth it has no impact on the market and the consequences of high prices. There is a strong correlation between high energy prices and economic reversals. There is a clear functional relationship between energy costs and return on investments in an industrial economy. There is no way that forcing people to pay higher prices for energy will not have a negative impact on economic growth.

- > *the government now routinely buys extra doses of vaccines causing drug*
- > *companies to manufacture more than what they perceive is needed for the next*
- > *flu season, this is an insurance policy to guard against the possibility*
- > *than more vaccine*

Flu vaccines are not strategic resources, so increasing their costs slightly to make them more available is easily borne by the economy, especially if there is a huge social benefit in having the vaccines around. This makes perfect sense. How does this relate to energy? The closest thing we have is the Strategic Petroleum Reserve – which buys reserves when the price is 'too' low and sells reserves when the price is 'too' high – to keep prices in a trading range – and to guard against shocks. This doesn't change the fundamental cost of energy though – it merely smooths out changes.

What you have proposed would fundamentally increase the cost of energy through government fiat – which would slow the economy likely past the breaking point. This will cause an economic decline so that neither business or government will have surplus cash to invest in new technology that does work.

- > *may be needed than the drug companies anticipated. You see, drug companies*
- > *have an incentive to keep the vaccine supply tight, if they produce too*
- > *much vaccine for a given year, they won't sell it all and they'll lose*
- > *money. The extra vaccine won't be good next year as the flu virus would have*
- > *mutated by then, so*
- > *drug companies try to come close to the mark and err on the side of vaccine*
- > *shortages rather than over supply. Since the government has an interest in*
- > *preventing vaccine shortages, it deliberately buys too much to guard against*
- > *a*
- > *vaccine shortage. Most years this is a waste of money, but you don't know*
- > *its a*
- > *waste of money until the flu season is over with, but sometimes the drug*
- > *companies underestimate next years need and the government's wasteful*

> *expendituren actually saves lives by preventing vaccine shortages.*

There are a host of ways the government can play a positive role in health care to provide a wide range of positive public benefits. There are similar things the government does in the energy business – like running the strategic petroleum reserve. But the government cannot, and never has, and likely never will, effect a fundamental change in the way industry does business. Governments didn't invent automobiles, airplanes, radio, telephone, television, computers, and so forth. Governments didn't promote their use. Government didn't invest in the capital needed to bring about lasting change in lifestyles based around these technologies.

Why do you believe government can play a role now in bringing about effective and lasting change in the way our industrial economy creates and uses energy?

There is no basis for such belief, and quite frankly, the record where such intrusive attempts have been made on behalf of society is rather dismal in their results.

> *A similar role can be envisioned for government to prevent gasoline shortages,*
> *both accidental and deliberate.*

Companies that sell gasoline would not deliberately create shortages because by doing so they don't have any product to sell – and thus their income is hurt. The reason there are shortages is because reserves have been inflated in the past – and our estimates of available oil are likely vastly inflated – and shortages are the natural outcome of such misinformation.

The US government has taken the long view with respect to limited oil supplies and the fact that we don't have good alternatives to oil. They have arranged things so that prices were artificially raised and maintained by OPEC after US oil supplies went into secondary production, they have arranged things in international trade so that a portion of the major oil reserves in the world were removed from trading – effectively putting those reserves in storage. As Saudi Arabia comes near the end of its reserves (going off earlier more accurate reporting of ultimate reserves) – it is bringing rogue nations removed from the market earlier back onto the market. What this has done is put into a short period all the economic shocks – and created an extended period of higher priced energy – near the limit of what our society can sustain at present. In this environment the government has subsidized research into all sorts of alternative energy sources – none of which have proven to be economic. We have about 20 years or so to come up with a good solution, or transition to even higher priced energy where the world will become largely post-technical – with a high caste of technology users in a definite minority.

Of course solving the problem of energy for humanity returns us to the scenarios of the 'too cheap to meter' heyday of nuclear power.

I do believe that if the end of cheap oil is inevitable, and the best alternative is twice as expensive as oil is today – say nuclear power plants. Then, the government could make a rational decision to a) increase the price of energy by taxing it to raise the level to point it will be at with new alternative to oil, and b) use the revenue stream to subsidize investment in the new technology. That way the market will respond to the new pricing paradigm and money will be invested very rapidly into the new alternative (in this scenario nuclear power plants)

Of course, if a private company through a totally private initiative should come across an energy technology that is competitive with oil – making oil from sunlight and air for example at \$9 per barrel – then the government need do nothing but make sure there is a level playing field and honest markets. In that environment the private company will first price to the market price of the diminishing oil supply to make huge profits. As the new company (and its copy cat competitors) grows in output the price of oil will start to drop to meet the new pricing structure. This will result in massive economic growth, increases in tax rates, or both.

Another thing government might do is to insulate the marketplace against price increases. That is, government could cut back on major spending in one area – say welfare or the military – and use that money to subsidize low-cost energy. This has huge social consequences, but could maintain the fiction that we live in a world of low energy costs. And if the economy grows beyond the capacity of government to give up programs (increasing tax rates has negative strategic consequences to economic growth ala Schumpeter) – society then pays the price of energy excess – created by this false signal sent by government.