It's a Syn
Are synfuels making a comeback? Can disco be far behind?

By Jerry Taylor & Peter Van Doren
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Soaring gasoline prices are prompting politicians on both sides of the aisle to contemplate a re-embrace of one of the worst financial boondoggles of the 1970s — synthetic fuels. Of course, the coal industry is smart enough to rebrand this technology, so the new term of art is "coal-to-liquids." While turning coal into oil (and then into gasoline) would be a wonderful idea if it could be done cost effectively, it can't — which is why the coal industry is banging on the federal door for lavish taxpayer subsidies. The fact that these proposals are being seriously entertained in Washington speaks volumes about why politicians should be kept as far away from the energy business as possible.

Should Congress go down this road again, it would represent the fourth federal effort to jump-start the industry with taxpayer money. If past is prologue, it will fail yet again.

The first effort began in 1944 with the "Synthetic Liquid Fuels Act," which authorized the construction of a host of federal coal-to-liquids demonstration plants. The *New York Times* reported that "The next ten years will see the rise of a massive new industry which will free us from dependence on foreign sources of oil. Gasoline will be produced from coal, air, and water." By August 1949, the federal Bureau of Mines was reporting that coal-to-liquids technology was, in theory, economically competitive with conventional gasoline, a claim that the bureau made again in a massive report issued in 1951.

What the federal demonstration plants actually "demonstrated," however, was that coal-to-liquid technology wasn't nearly as economically viable as advertised. When budget-cutting Republicans swept into Washington after the 1952 elections, the synfuels program was one of the first things to go.

The second effort came in 1960 with the Coal Research and Development Act. Originally adopted as a measure to prop-up the depressed coal sector, the law established the Office of Coal Research and funded the construction of six synthetic fuels demonstration plants. The most notorious of these was "Project Gasoline," a coal-to-liquids facility in Cresap, West Virginia under the protection of — you guessed it — Senator Robert Byrd (D., W.V.). Although the feds alleged that the Cresap plant would produce gasoline at eleven cents per gallon, construction delays, and cost overruns prevented the facility from ever coming fully on-line. Project Gasoline was quietly terminated in April, 1970.

The third and most ambitious effort was launched as a consequence of the 1973 oil embargo. Appropriations for coal-to-liquids programs increased 19-fold from 1970-1978. Three new federal coal-to-liquids demonstration plants were started, Robert Byrd's Cresap facility was brought back on-line, and President Ford promised that one million barrels of oil a day would come from coal by 1985.

Alas, the industry disappointed yet again, so when the 1979 oil-price shock hit, a frustrated Congress passed the 1980 Energy Security Act. Among other things, the law authorized a staggering $17 billion to fund the notorious Synthetic Fuels Corporation (SFC), a public-private entity charged with producing 500,000 barrels of oil per day by 1987. Another $68 billion was promised four years hence once the SFC submitted a "comprehensive strategy" to meet that target. The government actually talked about pressing the nation's entire construction industry into a crash program to build the envisioned fuel plants.

By the time the first $100 million of taxpayer funds went out the door, however, all but two SFC projects (none coal-to-liquid) were still-borne or cancelled due to yet more cost overruns and technical problems. The Synthetic Fuels Corporation was shut down in 1985 before it could spend any more.

As economists Linda Cohen and Roger Noll later observed, "The entire synfuels program had a quality of madness to it. Project after project failed. Cost estimates were connected to the price of substitutes rather than to the program itself. Goals were unattainable from the start. Official cost-benefit studies estimate net benefits in the minus of billions of dollars. Even apart from the Synthetic Fuels Corporation, the dogged continuation of the research and development program seems incredible."

After three bad fiscal marriages between the taxpayer and the coal-to-liquids industry, one would think that the madness of this political love affair would safely be a thing of the past. Alas, the "audacity of hope" marches on. Presidential candidate Barack Obama is talking-up the most ambitious set of coal-to-liquid subsidies yet, while Republican presidential candidate John McCain promises another ambitious round of federal demonstration plants and liberal doses of "can-do" attitude in the Oval Office. Virtually every politician in Washington has his or her own twist on how to use taxpayer money to subsidize coal companies for the public good, fulminations about "corporate welfare" notwithstanding.

If the definition of insanity is doing something over and over again with the constant expectation of a different result, then you know all you need to know about Washington in 2007.

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