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Popular, yes but there is a dark side to ethanol

John LaPlante

What would you call a public policy that raises the price of food and other products for Americans, degrades the natural environment, enriches a few well-connected companies, fails to live up to its promises, and threatens half a billion people with starvation?

Rather popular, for one thing.

Since 2001, ethanol production has nearly tripled and the number of ethanol plants has more than doubled.

How has this come about? As it turns out ethanol is not merely a good idea — it's the law.

And it's bi-partisan. Members of Congress love it, and presidential candidates who wish to win in the Iowa caucuses learn to love it. In the Midwest, at the state level, Wisconsin Gov. Jim Doyle, a Democrat, and Gov. Tim Pawlenty, a Republican, cheer it on. Minnesota, in fact, requires that all gasoline sold in the state contain 10 percent ethanol, and Gov. Pawlenty would like to double that mandate by 2013.

The federal Energy Policy Act of 2005 calls for 7.5 billion gallons to be on the market by 2012, compared with 3.5 billion gallons in 2004.

In addition, ethanol refineries, touted as engines of economic development, get tax credits, making some previously unprofitable operations worthwhile. Meanwhile, more energy-efficient imported ethanol (mostly from Brazil) faces a stiff 50-plus-cent-a-gallon tax.

Negative Implications

The Ethanol-Agricultural-Political Complex, if I may coin a term, has lately been losing some of its luster. On September 24, the New York Times reported that the ethanol boom "may be fading" in a glut. Production has expanded beyond distribution capacity.

On October 1, the Wall Street Journal reported that some ethanol plants are being "squeezed to the point of bankruptcy." The price of a gallon of ethanol has dropped from \$2.50 from the end of 2006 to \$1.50 now. Of course, the Iowa presidential caucuses are coming up, which could, in the current environment, lead to promises of a federal bailout.

Besides the costs to taxpayers, there are a number of other problems with ethanol besides its current bubble-induced slump.

C. Ford Runge and Benjamin Senauer described many of these problems in a recent article in Foreign Affairs magazine (<http://www.foreignaffairs.org/20070501faessay86305/c-ford-runge-benjamin-senauer/how-biofuels-could-starve-the-poor.html>), a publication of the Washington, D.C.-based Council on Foreign Relations. (Runge is a professor of applied economics and law and director of the Center for International Food and Agricultural Policy at the University of Minnesota. Senauer is professor of applied economics and co-director of the Food Industry Center there.)

Ethanol production could consume half of the corn production in the United States. The result would be rising food prices, not only for corn but for foods that use corn for feed: beef, chicken, pork, eggs and milk to start with. In addition, farmers may forgo planting other crops such as wheat, sending wheat prices up.

Runge and Senauer wrote: “In a study of global food security we conducted in 2003, we projected that given the rates of economic and population growth, the number of hungry people throughout the world would decline by 23 percent ... so long as agricultural productivity improved enough to keep the relative price of food constant. But if, all other things being equal, the prices of staple foods increased because of demand for biofuels ... the number of food-insecure people in the world would rise by over 16 million for every percentage increase in the real prices of staple foods. That means that 1.2 billion people could be chronically hungry by 2025.”

Rushing to action

Why, despite these negative consequences and limitations of ethanol, is ethanol popular among public officials?

The first is the imperative to *do something*. It’s hard to see a problem, real or perceived, and take a hands-off approach. Instability in the Middle East, global warming, and the depopulation of much of rural America are among the reasons one might cite to “do something” to promote ethanol.

A related reason is that *it’s hard to see secondary and tertiary effects*. It’s easy to say “Look at this! We’re reducing the consumption of gas by X billion gallons.” It’s more difficult to keep in mind the ripple effects, such as those on food.

Failing to think economically is another factor. Sure, it’s easy to say “let’s stick it to those oil tyrants by growing our own fuel.” But if we decrease our purchases from say, Saudi Arabia, the Saudis can easily sell their oil to someone else.

There's also the desire among public officials to be *Greener than Thou*. While specific environmental policies may be controversial, there's a widespread desire to be "green." So "grow our own fuel" sounds like a smart thing.

Don't forget *economic populism*. It's easy to say "So we're propping up Farmer Joe. Better him than some foreign country." Forget for a moment that Archer-Daniels-Midland and other large companies will benefit the most.

Finally, there's the *financial encouragement*. I put this last because far too often pundits and activists resort to crude materialism: Mr. Jones supports policy Y only because he receives money from industry Z. Ms. Smith thinks A is a good policy because she is employed by government agency 1-2-3. It's true that money often follows conviction, but conviction also follows money: Lobbyists don't only buy friends — they reward sympathizers.

Some, including Gov. Pawlenty, staunchly defend ethanol welfare on the grounds that the energy sector is already heavily subsidized. Perhaps it is. But we ought to remember that extending the number of subsidies brings new distortions and problems.