



Written by [Robert Confer](#) on January 4, 2010

## The Ethanol Fiasco

Since his days as a U.S. Senator, Barack Obama has trumpeted renewable energy as the catalyst for the future growth of America's economy. He believes to this day that investments in wind, solar, and ethanol energy will excite the marketplace and put Americans back to work.



He made this belief a [key component of his platform](#) while running for the office of President and his campaign website — which since the November 2008 election has been slightly modified to serve as advertising piece for his presidency — says:

President Obama has a comprehensive plan to chart a new energy future by embracing alternative and renewable energy, ending our addiction to foreign oil, addressing the global climate crisis and creating millions of new jobs that can't be shipped overseas.

This far-fetched idea, that the economic impact will be significant enough to employ millions, is a recurring theme of his speeches regarding his plans for taking us out of the Great Recession, of which green energy consistently ranks among his top three initiatives. Similarly, the supposed positive domino effect of Green Economics was a key part of the Bush administration's and its Democratic Congress's combined efforts to relentlessly promote and subsidize ethanol. Rather than increasing the employment rolls, those efforts increased consumer prices and accounted for vast transfers of wealth, something that should be a lesson to learn from for the current President.

The economic weaknesses of corn-based ethanol have long been discussed by critics of the federal government's ill-advised foray into the alternative fuel market. For years, they have said that it makes no sense to turn into fuel something that is such an important food both directly (as corn at the dinner table) and indirectly (as corn syrup and feed for livestock and poultry).

A negative impact on consumer prices was virtually guaranteed: A bushel of corn produces an average of 2.7 gallons of ethanol and federal mandates require that the nation uses at least 36 billion gallons (or some 13.3 billion bushels of corn) of the substance by 2022. The industry appears to be on its way to meet the high-water mark and it has far exceeded short-term goals. In 2006 the annual output of American ethanol plants nearly reached 5 billion gallons, three times what it was five years earlier. 2009's totals were estimated to exceed that by twofold and 2010's industry output is projected to surpass 13 billion gallons.

Following the laws of supply and demand, corn prices have gone out of control, reflecting the emphasis on ethanol. From October 2002 to September 2003 corn prices ranged from \$2.15 to \$2.35 per bushel. In the months leading up to the recession in 2007, corn prices exceeded \$4.00 per bushel. During the first part of the recession prices fared no better, for in April of 2008 they surpassed the almost-mythical \$6 mark and actually reached \$7.88 in June of that year. With the collapse of the global economy in 2008/2009 and the associated declines in demand and prices for nearly all commodities, corn was in a





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stretch that saw it stay within the mid-\$3 range. [Projections for 2010](#) show another up tick that will take it far beyond \$4/bushel.

This trend in increased ethanol production and the reliance on corn has had a detrimental effect on the consumer. Not only has corn itself gone up, affecting everything from sodas to cereals to tortillas, but so have the costs of meats and dairy products. At the turn of the century feed costs accounted for 50 percent of an average meat or dairy farm's operational costs. As the price of corn doubled and even tripled, the beef, milk, and chicken producers had no choice but to pass on the higher costs to consumers. During the second half of 2007 and the first half of 2008 consumer prices at the grocery store grew at unprecedented rates and many maverick economists (who disbelieve misleading government statistics like the Consumer Price Index) had price inflation pegged at 12 percent, not the 5 percent as indicated by the government.

[A 2007 study by Purdue University](#) proved just that relationship in price growth. The university determined that agricultural prices to the end consumer were \$22 billion greater in 2007 than in 2005, \$15 billion of which could be attributed to the push to use crops for fuel. That value accounted for an annual impact of \$130 per household, and that was prior to 2008's even-greater escalation in costs.

Studies like that and other similar criticisms were met with a blind eye and a deaf ear by most in Washington. Recently, though, we saw the federal government actually admit to having inadvertently manipulated market prices through the emphasis on ethanol (something the administration has yet to comment on it). The Government Accountability Office has [released a report](#) that says feed costs for livestock producers more than doubled from 2006 to 2008 as a direct result of ethanol production.

With corn ethanol the fuel additive of the present and future, ongoing price tag growth is not out of the question and virtually assured. This, of course, despite the posturing of Bush, Obama, or Congress, has done nothing to create jobs or jumpstart the economy. Instead, it cost people their jobs and helped to escalate the rate of destruction of the recession. As noted in the Purdue study, some \$15 billion was extracted from the economy. Rather than being spent on the purchase of more products in volume or invested in discretionary purchases of all sorts, all of which would have had positive economic impact in the capitalistic endeavors undertaken by all facets of our economy, those consumer funds were instead spent by individuals to only maintain the status quo in their diets. That's \$15 billion per year (plus that which is added annually to meet new ethanol requirements) that is lost in the ether of our economy, the direct result of unconstitutional and illogical government intervention into markets in which it does not belong. It is not a tax per se, but in practice it has the same effect as a tax: Wealth has been forcibly transferred away from the people by the government.

It won't end there. The ethanol fiasco is only the tip of the iceberg. The government still has other green energy goals on its radar, including cap-and-trade and wind and solar goals, all of which will require the expenditure of public monies and a regression in our standard of living.

It is hoped that before pushing ahead with such endeavors the government reflects on the problems with ethanol and realizes that, both literally and figuratively, green energy will take the gas out of our economy.





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