



Written by [Bob Adelman](#) on January 5, 2012

Ethanol Subsidies Disappear, Mandates Remain

The Washington Post's editorial celebrating the ending of ethanol subsidies iterated the same free-market positions taken by Rep. Ron Paul (R-Texas) and other Austrian school economists about those subsidies. Calling the 45-cent-per-gallon tax credit supporting U.S. corn-based ethanol production and the 54-cent-per-gallon tariff on imported ethanol "two of the most wasteful subsidies ever to clutter the Internal Revenue Code," the Post estimated that ending those subsidies will save the U.S. taxpayer approximately \$6 billion this year.



In a remarkable admission of undeniable truth, the *Post* added: "Taxpayers will no longer have [to] shell out roughly \$6 billion per year for a program that badly distorted the global grain market, artificially raised the cost of agricultural land and did almost nothing to curb greenhouse gas emissions."

Further, the *Post* rejoiced over the expiration of another "lesser known but equally dubious energy tax break ... the credit that gave electric car owners up to \$1,000 to defray the costs of installing a 220-volt charging device in their homes," and said

As a means of reducing carbon emissions, electric cars and plug-in hybrid electrics are no more cost-effective than ethanol. What's more, only upper-income consumers can afford to buy an electric vehicle (EV); so the charger subsidy is a giveaway to the well-to-do.

More surprising was the *Post*'s disappointment that the credit for purchasing a new electric car — up to \$7,500 — remains in place. Said the *Post*, this is "a subsidy that, alas, did not expire at year's end. The Obama administration says that the credit helps build a market for EVs, which helps create jobs.... [Instead] it looks increasingly like an industry not ready for prime time."

Noting the recent disappointment that General Motors fell far short of selling a modest 10,000 Chevy Volts in 2011 (it sold just 7,600 even with the subsidy), the *Post* then went on to question President Obama's veracity when he announced his expectations for EV use in the near future:

Evidence is mounting that President Obama was overly optimistic to pledge that there would be 1 million EVs on the road by 2015. Electric cars are not likely to form a significant part of the solution to America's dependence on foreign oil, or to global warming, in the near future. They simply pose too many issues of price and practicality to attract a large segment of the car-buying public. More prosaic fuel-economy innovations such as conventional hybrids, clean-diesel cars and advanced gasoline engines all show much more promise than electrics.

The mandate remaining in place that requires at least 37 percent of the nation's 2011-2012 corn crop to be converted to ethanol and blended with gasoline [will increase the demand for corn](#), resulting in higher prices across the board. The Congressional Budget Office concluded: "Producing ethanol for use in motor fuels increases the demand for corn, which ultimately raises the prices that consumers pay for



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a wide variety of foods at the grocery store, ranging from corn-syrup sweeteners in soft drinks to meat, dairy and poultry products.”

The ripple effect of that government-induced distortion in the ethanol/corn market is expected to raise the price of grains, soybeans and vegetable oil by between 7 percent and 35 percent each year from now until 2017, according to a report issued by the Food and Agriculture Organization (FAO). If this is anywhere close to accurate, prices for these essential foodstuffs could double in five years, putting marginal income people deeper into poverty. The “[tortilla riots](#)” of 2006 in Mexico began when the price of corn tortillas rose by more than 25 percent, with similar disturbances occurring from Haiti to Bangladesh.

The distortions resulting from subsidies often fall into the category of “unintended consequences,” which is why Rep. Paul [has opposed them for years](#). He explained:

I oppose ethanol mandates because I do not think anyone should be forced to use or buy ethanol. Ethanol mandates often serve as corporate welfare for big agriculture ethanol producers. The marketplace should decide whether or not to use ethanol, and producers of ethanol have to discover if they can produce it at a price that makes good business sense.

The story behind the story here is how close Paul’s consistent position on subsidies has been over the years when compared to the *Washington Post*’s come-late-to-the-party realization of the same. It’s nice to have confirmation from the editorial board at *Washington Post* supporting what Paul and others in the Austrian school have been saying for years: End the subsidies, end the mandates, let the free market work.

Photo: Ethanol plant in West Burlington, Iowa



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