



Written by [Bob Adelman](#) on June 17, 2011

Beginning of the End for Ethanol Subsidies

Opposition to ethanol subsidies has been building for years, but the green lobby has successfully overcome all attempts to repeal them, until now. Starting out as a consolidation of a convoluted set of subsidies that stretched back to the 1970s, the present subsidy was voted in by the Republicans during the George W. Bush administration in 2004. The subsidy started out at 51 cents-per-gallon but was reduced slightly to 45 cents in 2008.



Support for ending the subsidy has come from all across the political spectrum. Liberal Senator Frank Lautenberg (D-N.J.) said, "Ending this wasteful handout would ensure taxpayers no longer subsidize the already profitable corn ethanol industry." Senator Coburn asked: "Can we trust markets, real markets, to work more effectively than Washington mandating and dictating policies?" Even the World Bank has called on governments to stop their ethanol subsidies because they were driving up food prices.

Support for the subsidies rested upon numerous assumptions, none of which has proved out. By growing ethanol at home, dependence upon foreign oil would be reduced. But over the past 10 years, ethanol production has increased by 700 percent, while oil imports have increased by nearly a million barrels a day. Subsidies were supposed to keep the price of gas down, and reduce air pollution. As noted in an editorial at [Investors.com](#), a study by Environmental Science & Technology concluded that ethanol can increase the country's smog problem, and that increased use of ethanol in gasoline "may be a greater overall public health risk than gasoline." *Science* magazine noted that ethanol usage "will probably exacerbate" greenhouse gas emissions, after all factors involved in producing ethanol are taken into account. Ed Dolan, writing for Nouriel Roubini's Global Economics Project, says that "U.S. ethanol policy contradicts every principle of sound economics." The problem is that corn-based ethanol "saves little if any carbon and produces little if any gain in energy compared to petroleum.... Even the most optimistic studies give corn ethanol only a tiny advantage over petroleum, nowhere near large enough to justify the scale of current subsidies."

At present, government subsidies for ethanol production total \$7 billion a year, or about \$1.90 a gallon, which makes it more profitable for farmers to grow corn for ethanol than for human or animal consumption. The reduced production of corn for such consumption raises the price. The math is simple: Because corn is used to feed chickens, cows, and pigs, these higher prices translate directly into higher prices for chicken, beef, pork, milk, cheese, and so on.



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Jean Ziegler, special UN reporter on food, concluded that while the argument for biofuels, in her opinion, in terms of energy efficiency and climate change is legitimate, the effects of growing food for fuel on the world's hungry population are "absolutely catastrophic," and she considers the use of arable land for that purpose a "crime against humanity." *Time* magazine admits that production of ethanol "sucks up grain and cropland that could be used for food. In America, 40% of the corn crop is currently diverted to make fuel for cars." *Time's* writer Bryan Walsh noted, "Diverting corn and other crops to biofuels will only act to raise prices." That might be worth it, says Walsh, "if biofuels provided substantial environmental and economic benefits, but there's significant research showing that corn ethanol's carbon footprint isn't much better than that of oil. Nor has ethanol done much to wean the U.S. off foreign oil. "

Another little-noted disadvantage to using ethanol is that, when temperatures drop, its combustion creates terrible smog. That explains why California politicians fought against using ethanol in the winter.

In summary, says Gardner Goldsmith, writing for the *Freeman*, through ethanol subsidies the government "forces on us higher costs that retard our ability to better our lives, a fuel that creates smog in winter and takes more energy to make than it produces [through] a series of unconstitutional mandates."

Although the bill overwhelmingly passed the Senate, the victory, on the surface at least, appears hollow. The bill is now attached as an amendment to another bill that has little chance of passing. The Obama administration has made abundantly clear that it will veto any attempt to cut ethanol subsidies. And besides, all money bills must start in the House. In addition, the ethanol industry is well-entrenched and will fight to keep the government taps open. There is still a tariff of 54 cents-per-gallon on ethanol imports, and there remains the government mandate to mix ethanol with gasoline, currently at 12 billion gallons this year and rising to 36 billion gallons in 10 years. But activists and constitutionalists can take heart that finally, at long last, the conjunction of pressure over raising the debt ceiling, cutting government spending, and nearly unanimous opposition to the ethanol subsidies is finally reaching the floor of Congress. If the pressure continues to build, direct subsidies to the ethanol industry could be history by the end of the year.



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