



A Vicious Circle

Posted by [Robert Rapier](#) on March 12, 2008 - 7:04pm

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A few days ago, someone here posted a link to a story about [skyrocketing farmland prices](#) in the Midwest. It really made me angry to think about the inflationary chain reaction and the vicious chain of events our politicians have set into motion with these ethanol mandates. It made me even angrier to think that the few who benefit from these policies defend their right to siphon money from the rest of us and into their pockets. (I will be the first to say that surging energy prices are a big component of surging inflation, but with the ethanol mandates we are throwing jet fuel on an already raging fire).

This all started out innocently enough. Oil prices were climbing. Our energy production was shifting to an ever greater extent to countries that are hostile to the U.S.

So, Step 1 in the chain is to propose a solution:

1. The government should subsidize ethanol production to encourage production of home-grown fuels, which will enhance energy security and create jobs in the Midwest.

However, subsidies didn't work as expected. It was still too expensive to produce ethanol. People continued to choose gasoline over more expensive ethanol. We had to move to Step 2.

2. The government should mandate ethanol usage.

When the mandate was added to the equation, things change. Now, the fuel doesn't have to be economically priced. It is going into the fuel supply regardless of the price. This mandate generates an immediate market for ethanol, and kicks off a massive expansion of ethanol capacity.

But it isn't long before we notice that [too many people are building ethanol plants](#). This is causing a glut of ethanol, and putting downward pressure on the price of ethanol. On the other side, it is raising the price of corn. This lowers the margins for ethanol producers, and [some producers start to go bankrupt](#). Projects are delayed or cancelled. The solution? Proceed to Step 3, which is entirely predictable:

3. We need to increase the mandate for ethanol usage.

Unfortunately this leads to more of the problems that arose from the original mandate. [Corn prices go even higher](#). Land prices continue to climb. Land is shifted to corn production, forcing commodity prices up in other areas. Very few segments of the population are experiencing true

benefits. The arms race continues, and we find ethanol producers will once again call for higher mandates. It is an entirely predictable consequence of the current policies we have in place.

Who Benefits

The [primary beneficiaries](#) are commercial corn (and other commodity) farmers who purchased their land prior to the mandates. They are [truly experiencing a windfall from these policies](#), and thus will fight the hardest to continue down this ill-advised road. A lot of millionaires have been made in Iowa as farmland prices quadrupled.

Secondary beneficiaries are [lobbyists who defend the practice](#), those who are willing to write papers ([commissioned by the National Corn Growers Association](#)) that shift the blame, and pandering politicians with constituents that benefit from the current policies.

Who Doesn't

The [ethanol producer](#) isn't even consistently benefiting (unless they are also corn farmers). Ethanol producers are starting to realize that the energy business is often low margin (and cyclical), and not as lucrative as they once thought. When an overbuilding cycle occurs, prices crash. When prices crash, the call for more mandates is raised by ethanol producers who are facing financial trouble. Wash, rinse, repeat. After all, we must bail those out who make poor financial decisions. This is national security, for God's sake! If we don't bail them out with more mandates, the terrorists win. More mandates are certainly needed to rectify this.

The cattle rancher (like my Dad) and pig and poultry farmers [get hurt from higher feed prices](#) that cut into already razor-thin (or negative) margins. For our corn farming friends who love to defend these mandates, I would really appreciate it if you would explain to me why it's OK for you to pull money out of my Dad's pocket and put it into yours. I know your argument is that you deserve to make a good living. Well, so does he (don't we all!), but your profits are at his expense. But hey, you are getting yours, so you will defend the practice. Just don't expect me to keep quiet about the impacts.

The [person trying to buy farmland is hurt](#) by land prices that have exploded as a result of the mandates (unless they inherit family land).

The environment suffers as the mandated corn production [means more herbicide, pesticide, and fertilizer usage](#), some of which ends [up in our waterways](#).

The person who eats is hurt because [higher commodity prices ripple through their food budgets](#), already stretched because of increasing energy costs.

Money for Everyone - and It's Good for the Environment

So what's the solution to this mess that has been made? I think it is simple, really. We all need to become either corn lobbyists or corn farmers. That way we all profit and we can afford to pay the financial consequences of spiralling inflation resulting from these mandates. (I suppose we will need to be subsidized for our farm purchase, since farms have gotten pretty expensive).

Now some may suggest that this would negatively impact the environment. I have a solution for this. We can simply commission a study to show that there is in fact no negative impact on the environment. Problem solved. I suppose I also need to commission a study that shows that aquifers are actually depleting because people are drinking a lot more water than they used to.

For those who support the mandates, why don't we create more wealth by mandating that everyone buy a new computer or a new Ford every 3 or 4 years? Wouldn't that create jobs? Heck, maybe we can make everyone wealthy and create jobs for all with more mandates. Unless of course, there is a downside to these mandates that I am missing....



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