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Time To Abandon Ethanol Mandates

Washington's failure to achieve a sensible energy policy continues. The government pushes bad policy -- ethanol mandates -- while allowing better solutions -- alternative energy tax credits -- to fall victim to political infighting.

In August, the U.S. Environmental Protection Agency denied Texas Gov. Rick Perry's request for a 50 percent waiver of the federal ethanol mandate. And soon, the federal mandate expands from 9 billion gallons to 12 billion, with even larger expansions to come.



Perry has rightly said the denial "is a mistake that will only increase the already heavy financial burden on families while doing even more harm to the livestock industry." Any government mandate that artificially props up a single industry to the detriment of millions of Americans is bad public policy."

The mandate distorts the market and drives up food prices, as the Texas Public Policy Foundation's Kathleen Hartnett White points out.

"This year's dramatic 9.8 percent rise in the Producer's Price Index and the 6.7 percent six-month increase in the Consumer Price Index for food is undeniably tied to a tripling of the price of a bushel of corn in less than four years," she says. "Food inflation not seen in 20 years, these CPI rates coincide with the first year of implementation of the ethanol mandates enacted in late 2007."

The mandate affects more than just corn prices.

"Roughly 80 percent of the production cost of eggs is the price of feed grain made from corn," Ms. White says. "The retail price of eggs has increased more than 30 percent in the last year. Similarly, dairy products have double-digit price increases driven by a 50 percent production cost in feed grain."

And the effect is widespread, experts agree.

"Economists at the World Bank, International Monetary Fund and the United Nations recently concluded that 70 to 75 percent of the unprecedented increase in global food prices results from international bio-fuel policies, among which the United States is the dominant player," Ms. White notes.

Meanwhile, the single most effective incentive to energy independent -- tax credits for alternative energy -- are likely to expire in December because a tax relief package is stalled in the House, with Democrats unwilling to budge in a dispute with the Senate.

"Some \$500 million in investment and production tax credits will expire Dec. 31 unless Congress renews them," The Associated Press reported last month. "Without that help, solar and wind power companies say they will reverse planned expansions and, in many cases, cut payrolls and capital investment."

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Mandates and penalties will never be as effective as positive incentives in encouraging innovation.

"U.S. energy policy has been supplanted by counterproductive environmental policy," Ms. White says. "Built on mandates, subsidies, trade restrictions, and bans on production, federal energy policy operates like slipshod energy central planning."

It's time for the ethanol mandates to go. And for the tax relief package to pass.



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