



## Irrational Infatuation with Biofuels

by *Richard W. Rahn*

### *LAWMAKERS DRIVE UP COST OF FOOD AND ENERGY*

Are you upset about rapidly rising food costs and high gas prices? You can thank members of Congress and the administration for this situation. Much of the United States is in the midst of a major drought. That's not the fault of the political class, but those folks have made the consequences of the drought far worse for the entire world.

First, the facts: Corn and soybeans are the biggest U.S. grain crops and are used in many of the foods that almost everyone consumes each day. Congress subsidized and mandated the use of ethanol in motor fuel. Currently, about 40 percent of the U.S. corn crop is used in the production of ethanol. Corn prices rose as a result of the government creating an artificial, additional demand. As a result of higher corn prices, many farmers grew more corn and fewer other crops, such as wheat, which, in turn, caused the prices of those other crops to rise because of lower production.

The drought is resulting in a much smaller corn crop, but by law, much of the remaining corn must be used to produce ethanol, resulting in even higher prices for corn, which reached a record high last week. Higher corn prices drive up the price for other grains that are affected by the drought, resulting in higher prices for almost all grains. Corn and other grains also are used to feed

animals. This means it is more costly to produce meat, which, in turn, will cause meat prices to rise rapidly.

The price of corn is roughly the same throughout the world, and the same goes for other grains. The United States is by far the world's largest corn and food producer and exporter, accounting for about 40 percent of the world's total. When U.S. prices rise, so do prices for everyone else in the world. People in poor countries spend as much as three-quarters of their income on food, so a rise in food prices can cause real misery and near starvation. Low-income people in the United States also spend a much higher percentage of their income on food, and a rise in food prices causes them more misery than the more affluent.

The argument for mandating ethanol in motor fuel was to help make the United States energy-independent and reduce carbon-dioxide emissions. Now the inconvenient facts:

- Recent studies show that the total carbon-dioxide emissions from growing, harvesting, processing and burning corn as ethanol are much greater than those from oil and gas production and use.
- Ethanol reduces gas mileage in cars because it is less energy-dense than gasoline, and it causes more wear and tear on engines.
- And without subsidies, ethanol is more costly than oil and gas.

New emerging fracking technology and other oil and gas production techniques, as well as recent major discoveries, mean North America could quickly become totally energy-independent (a questionable goal in itself, but that is the subject for another column) if it were not for unreasonable delays and other restrictions on production by the federal government.

Politicians fail or do not wish to understand that both food and energy markets are caloric markets. The chairman of Nestle, the world's largest food company, Peter Brabeck-Letmathe, notes, "The only difference is that with the food

market you need 2,500 calories per person per day, whereas in the energy market you need 50,000 calories per person." He adds: "Most of the world's sugar production now goes into making biofuels. It takes about 4,600 liters of water to produce one liter of pure ethane oil if it comes from sugar." The basic point is that it is economic madness to be using large amounts of what could be food and massive amounts of water to produce relatively little biofuel when the world is awash in much cheaper oil and gas if only it were allowed to be produced.

So when you turn on your TV news and see very hungry people in poor countries, food riots in Europe and the Middle East, and Americans getting upset and suffering from high food prices and unnecessarily high energy prices, you should remember that the real villains in this global tragedy are the members of Congress and politicians in other countries who voted for these insane policies.

But wait, it is likely to get worse. Already, members of the Obama administration and some in Congress have been threatening food producers and sellers with price controls. Price controls have failed nearly every time they have been tried for the past 2,000 years, but some never learn. Everyone who takes a basic course in economics should learn that lower prices tend to increase both supply and demand and higher prices tend to reduce them.

Responsible, knowledgeable and caring members of the political class will act to remove the ethanol and other biofuel mandates and act to remove the restrictions on oil and gas production that do not meet reasonable cost-benefit tests. If they do so, food and gas prices will fall, and if they do not, there may be enough wise voters to remove those irresponsible politicians from office.

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