The American Spectator

Has Subsidy-Scrapping Time Arrived?

By Peter Hannaford on May 18, 2011

One day last week Senate Democrats engaged in one of their favorite indoor sports: beating up on oil companies. They convened a kangaroo court (aka a hearing) to give tongue-lashings to the CEOs of major oil companies, just to make sure American motorists know it is this greedy bunch that is responsible for soaring gasoline prices.

"Take away their subsidies," they cried. The media missed the irony in the sharp inquisition by Sen. Jay Rockefeller (D-WV), heir to a large Standard Oil fortune (of which Exxon is a modern descendant).

One of the accused said taking away the subsidies was okay if all government subsidies met the same fate. In calling for reform of the tax system, many Republicans and some Democrats propose lowering corporate tax rates sharply in exchange for eliminating "loopholes" (special tax deductions, credits, and direct subsidies). This was echoed by Exxon CEO Rex Tillerson at the hearing: "If you want to repeal it [a subsidy] repeal it for everybody." The tax reform act signed by President Reagan in 1986 represented a similar effort -- successful at the time -- but gradually, as taxes increased again, new loopholes were added to counter the effect of these.

American taxpayers would save hundreds of billions of dollars if subsidies were eliminated.

There would be howls of protest. Some would come from elected representatives of both parties from affected areas. "You can't do this," they will insist, for it would (a) cost thousands of jobs; (b) ruin the economy of _____; (c) endanger national security; (d) increase global warming. Reformers will have to steel themselves for this onslaught if they are to stay the course. If they do, there will be dividends.

Take, as an example, the huge subsidies of ethanol. Billed in the 1970s as an economic alternative to gasoline with the promise of greater miles per gallon and cleaner air, ethanol has been subsidized ever since. Environmentalists and more than a few Democratic lawmakers liked ethanol because it played to their anti-fossil-fuel bias. Creeping subsidies are the result. Today corn growers and ethanol producers collectively get $6 billion a year from the government.

After 40 years, it is a failure in every respect save one: corn growers and ethanol producers are doing nicely. The producers get a 45-cents-a-gallon tax break and growers get direct subsidies which they would like increased by this year's agriculture bill.

A 2007 energy bill required the annual blending of 14 billion gallons of ethanol with gasoline by this year, increasing to 36 billion gallons in 2022.

This is madness when one considers the negatives:

- Cost of food. As ever more corn growers ship their corn to ethanol producers, there is less for feeding livestock. Result: higher prices for beef and pork. Also, some growers of other produce are switching to corn because it is more profitable.

- Poorer mileage. A National Center for Policy Analysis study concluded that a Chevrolet Tahoe SUV running on gasoline would get 21 mpg, but only 15 mpg when using a blend of 85 percent gasoline and 15 percent ethanol. Fifteen percent is the level the EPA requires for 2001 and newer model cars. Older cars could sustain engine damage with ethanol at that level. Does this mean gas stations must have two sets of pumps? An amendment by Rep. John Sullivan (R-OK) to block the EPA from raising the ethanol level from 10 to 15 percent passed the House 285-136 and awaits Senate action -- if any.

- Ethanol is not usable as aviation fuel.

- Environmental "wash." The amounts of water and fuel required to produce ethanol are about a "wash" with the decrease in carbon emissions in cars using the ethanol blend.

- Shipping costs. Ethanol-gasoline blends cannot go through pipelines for chemical reasons, so ethanol is transported by rail or truck. Most of it is produced in the Midwest so must be blended where it is distributed, increasing costs.

So, let's begin the reform process by eliminating the subsidies for ethanol, then we can move on to sugar, oil, even electric automobiles.