

Ethanol: A Convergence of Farm and Energy Policy

The United States has been producing ethanol for decades, but not until recently has there been a surge of interest in stepping up production. Now many policymakers want to give the fledgling U.S. ethanol industry a boost. Supporting it will reduce U.S. dependence on foreign oil, they argue—plus the ethanol industry is good for rural America.

In the United States, corn is the crop of choice for making ethanol. The natural sugars from the corn are distilled into alcohol, which can then be used for fuel. Corn is not the only natural resource that can be converted into ethanol, but the United States grows so much of it—nearly 12 million acres in Illinois alone—that the corn is literally there for the picking. The areas of the country that grow the most corn today are Iowa, Nebraska, Minnesota and other Midwestern states—but if the industry takes off as expected, you can bet that farmers from around the nation will be producing a lot more corn.

As the farm bill comes up for reauthorization, we are urging Congress to reform farm policy by eliminating subsidies that encourage farmers to overproduce. Since Midwestern corn farmers are also some of the largest beneficiaries of farm subsidies, it may make sense to promote ethanol as a way of expanding available markets for corn producers. Increased demand for corn would raise the market price for this commodity, and higher prices mean lower government payments for commodity subsidies. With continued high prices for corn, farm programs to support corn production could be scaled back or possibly even eliminated.

Developing the domestic ethanol industry is sure



Jim Parkin

Ethanol production has increased to 4 billion gallons in 2005, up from 1.8 billion gallons in 2001. Production could reach 7 billion gallons in 2010, if the current trend continues.

to help farmers, but how much it will benefit the rest of rural America remains to be seen. In this report, we take a hard look at how U.S. farm policy has neglected most rural communities. Current policies encourage the consolidation of farms, which has contributed to the exodus of people from rural communities. With fewer farmers in a community, there are fewer customers for other businesses too. No matter how the ethanol industry develops, it is important that the wealth created remain in rural communities.

Policymakers can ensure that rural communities benefit from the ethanol boom by supporting local ownership of new plants. Currently the two largest

processors of ethanol in the United States are Archer Daniels Midland and VeraSun Energy. ADM and VeraSun's ethanol plants create jobs in the communities where they're located, but rural communities stand to gain a lot more if a larger share of the profits stay within the community instead of leaving for corporate headquarters. In the 1990s, more than half of all new ethanol plants were established as farmer-owned

is a cheap commodity that supplies feed to domestic as well as international livestock producers. Some have already expressed concern that stepping up U.S. ethanol production may exacerbate food insecurity and hunger. Second, the extensive monocropping of corn for ethanol may have adverse environmental impacts. Through the Conservation Reserve Program (CRP), farmers receive government support for taking highly

erodible land out of production. CRP has been a successful program that supports farmers at the same time it provides wider environmental benefits to the public. If the price of corn remains strong, however, the temptation to pull environmentally sensitive land out of production may be too great for farmers to resist. The ensuing environmental degradation could cause serious and permanent harm to that land.

It makes good sense for the government to pursue diverse energy sources to help fuel the American economy. But if policymakers truly want to reduce the country's dependence on foreign oil—and team energy production

with rural development—then an initiative to increase the production of corn-based ethanol is just one of several options worth attention. Plants, trees, grasses and even waste have potential to be converted into fuel, perhaps in ways that are more efficient than current production methods for ethanol. The U.S. government should invest heavily in research to refine other biofuel technologies so that rural areas not producing corn can also participate in efforts to diversify our nation's energy sources.

The United States has met previous technological challenges, but each of them has required a significant investment in research and development. Without these efforts, ethanol production alone will not be able to end U.S. dependence on foreign oil.

co-ops, but by summer 2006, just one in eight plants under construction was farmer-owned, according to the Renewable Fuels Association.

Rural communities where ethanol is produced need policies to ensure that the industry is not just another permutation of the "boom-and-bust" cycle that has plagued rural America for generations. Whether it is gold, coal, oil shale or the manufacturing of clothing and textiles, there is a long history of rural communities being left high and dry by outside developers. Resting a community's hopes on any one industry is a perilous development strategy; ethanol is no substitute for efforts to promote diversified economies in rural areas.

Two other caveats should be noted. First, the development of a corn-based ethanol industry may affect the amount of corn grown for food uses. Corn

Figure 1.7 **Annual Average and Forecasted U.S. Crude Oil Prices, 1997-2007**

