Folly by Numbers – USDA Shows Economic Gains from Eliminating Subsidies
By Joel Velasco

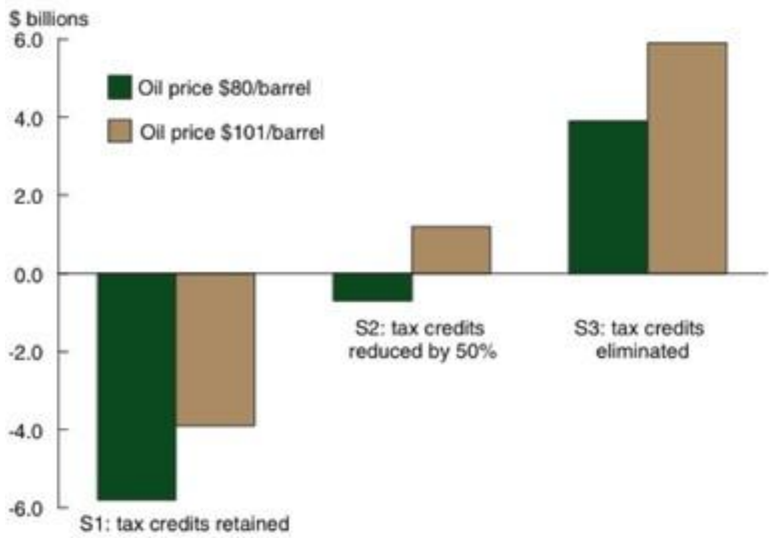
Last week at the National Press Club, U.S. Department of Agriculture (USDA) Secretary Tom Vilsack made headlines when he called for a "fiscally responsible short-term extension of the Volumetric Ethanol Excise Tax Credit [VEETC]," citing a new report by the agency's Economic Research Service. In an ironic twist, it turns out the report shows that with the Renewable Fuel Standard (RFS2) in place, **eliminating those tax credits would actually increase the nation's economic productivity** by roughly $4 to 6 billion dollars (depending on the price of oil).

The findings were highlighted today in National Journal's Need-to-Know Memo on Energy, as well as by The Des Moines Register's Phil Brasher.

``**ETHANOL ECONOMY**. An Agriculture Department report says continuing the current 45-cents-per-gallon ethanol tax credit could cost $4 billion to $6 billion in U.S. economic output by 2022, when congressionally mandated biofuel use will be in full bloom. At that point, keeping ethanol incentives would depress GDP growth due to lost federal revenues, while eliminating the credits would grow the economy by a commensurate amount. The report comes as the White House plans a major overhaul of biofuels policy, the ethanol credit expires December 31, and little substance could emerge in a lame-duck session. Hat tip to the Natural Resources Defense Council (which opposes ethanol incentives).
- National Journal, October 26, 2010"

What was that about fiscal responsibility? Page 7 of the report, Effects of Increased Biofuels on the U.S. Economy in 2022, shows that retaining the current tax credit would decrease Gross Domestic Product (GDP) by an estimated $4 to 6 billion. In fact, **outright elimination of the tax credits is the only scenario under which USDA shows certain economic gains** – cutting the subsidies in half would still result in a loss should the price of oil be $80/barrel or less.

Figure 1
Impact of RFS-2 on U.S. gross domestic product



RFS-2 = Renewable Fuel Standard.
Source: USAGE model simulation.

By extending the credits for just one year, Congress would be squandering close to $6 billion taxpayer dollars – and further, Americans would continue to be **denied access to more affordable and environmentally advanced biofuels like sugarcane ethanol** – since the tax credit has always been coupled with a tariff on imported ethanol.

In a time of soaring deficits, **Americans are ready for a new ethanol policy that lowers prices at the pump and allows access to the best the market has to offer – not more of the same**. And in a time of continuing economic sluggishness, government leaders should be taking every opportunity to increase America's economic output. Eliminating ethanol trade protection and subsidies qualifies as good policy on both counts. Competition will create a race to the future and generate better alternatives for consumers.

Posted on October 26, 2010, on SweeterAlternative.com

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