

farmgate: Tell Us: Have You Heard Of Any Criticism About The Ethanol Industry?

Maybe you have an ethanol plant in the next county over. Maybe you've considered being a farmer-investor in an ethanol cooperative. Maybe there will be an ethanol plant in nearly every township, so your corn can be conveyed, instead of hauled. Yes, that may be a silly idea, but with the weekly announcement of a new Midwestern ethanol plant and the monthly announcements of plant expansions, Cornbelt agriculture is becoming intoxicated with ethanol euphoria. Economic development, new markets, job creation and many other benefits are touted as the outcome, but are they all realistic?

The short answer is "no," according to Iowa State University economist David Swenson, whose home state will soon have an ethanol plant in operation or planned in all but 6 counties, and will be a corn deficit state. (IA a corn deficit state?)

Swenson's research, entitled, "[**Input-Outrageous: The Economic Impacts of Modern Biofuels Production**](#)" casts doubt on practically every economic aspect of an ethanol plant. If you are involved in an ethanol operation, or if you would ever consider being an investor, or if you come no closer to ethanol than growing corn, you should be aware that not everyone in the US is enamored with the ethanol explosion, and that it has some major critics. Swenson is not challenging the energy input-output equation that a Cornell University entomologist is doing, but he contends that local ethanol operations are not a cure-all for community economic development.

Swenson acknowledges the positive benefits of: 1) increased market price for corn, 2) operational jobs created at ethanol plants, 3) construction jobs created to build plants, and 4) transfers of federal dollars into rural communities. But Swenson contends that quantification of those benefits has been overstated, "there are claims to economic outcomes associated with ethanol production that seasoned analysts cannot swallow, but that proponents and politicians will certainly tout as gospel unless confronted with better (or, for the most part, actual) research. The gap between sensible analysis and

outright nonsense is huge.”

He challenged noted economist John Urbanchuk which claimed ethanol would create nearly 115,000 jobs and with Federal Reserve economist Nancy Novak who claimed ethanol had created 220,000 jobs, which Swenson compared to US Census Bureau statistics indicating there were only 2,200 employees in the alcohol industry.

Another Swenson concern is the amount of corn that is going into ethanol plants. He says it was already being produced, and if ethanol plants were not being built to refine it, it would have been exported, “Recent indications in light of quite high corn futures prices, are that farmers in the Midwest will increase corn acres. That will come almost entirely at the expense, however, of other crops. Shifts in production from one crop to another are not economic impacts; they are planting decisions.”

On the issue of transportation, Swenson contends there will be a minimal amount of ethanol moved by truck, since rail cars are more efficient, so it is wrong to say ethanol will make a major new business for the trucking industry.

Regarding market prices, Swenson says claims of \$.10-\$.12 cents per bushel as a premium price for selling corn to a local ethanol plant is not justifiable, and that premiums have only been \$.05 per bushel. He contends if returns are high for farmers that will spell trouble for cash renters, and higher market prices only mean fewer federal dollars coming from farm programs.

While distillers dried grain is a good alternative cattle feed, Swenson says there are more hog producers around ethanol plants, and hog profits will be reduced by having to compete for corn at prices being paid by ethanol plants.

Other issues of contention outlined by Swenson include:

- 1) higher prices for food because of the increased demand for corn
- 2) Reconfiguration of livestock industries around ethanol plants, and the impact of increased manure.
- 3) Shift of cropping patters to more corn, and loss of marginal lands being planted to corn.
- 4) Reduced use of the elevator and grain transportation system because corn is being

delivered directly to nearby ethanol plants.

5) What will happen to corn, after ethanol is made from more environmentally-friendly feed stocks?

Swenson concludes with his concern about small ethanol plants developed by farmer cooperatives, and what will become of them when the price of ethanol falls and corn prices lose their stability.

Summary:

Nearly everything we hear about ethanol is rosy, but not according to Iowa State economist David Swenson, who contends the economic development potential for local ethanol plants has been significantly overstated, all the way from prices being paid for corn, to the number of jobs the industry is creating and will sustain. His research asks a number of questions, some of which ethanol supporters may already have answers for, and others which answers will have to be forthcoming.

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Posted by Stu Ellis on June 26, 2006 02:38 PM to farmgate