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PIONEER PRESS

### REAL WORLD ECONOMICS: Ethanol subsidies burn many to benefit a few

EDWARD LOTTERMAN  
Columnist

Gov. Tim Pawlenty deserves an "A" in political courage for squarely confronting Minnesota's subsidy for ethanol production.

I was surprised he had the guts to call for a complete end to the 20-cent-a-gallon operating subsidy. The proposal came early last week as part of his ideas to repair the short-term budget deficit.

The reaction of Pawlenty's Republican colleagues to his bold ethanol proposal will reveal a lot about how true they are to the avowed principles of their party. Does the Republican Party really stand for efficiency in government, or is it willing to tolerate economically inefficient programs that benefit those who are likely to vote Republican?

To no one's surprise, the agriculture committee in the DFL-led Senate restored the subsidy Thursday afternoon, a few hours after 200 farmers arrived at the Capitol to protest the cut. Members of the ag committee in the Republican-led House offered a sympathetic ear to the farmers but took no action.

Under a 1996 law, most gasoline in Minnesota must contain a 10 percent blend of ethanol. In addition, the state through 2006 is providing subsidies of several million dollars a year to 13 ethanol-producing plants, most of which are owned by local farmers through cooperatives.

The state benefits in several ways. The fuel is somewhat less polluting than straight gasoline. Ethanol plants create employment and boost economies in the town where they're

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built. And farmers near such plants are paid slightly higher prices for corn since demand is high. You don't need a Ph.D. in political science to understand why many legislators support the law.

The problem is that whenever anyone measures these benefits and compares them to what ethanol costs society, the outcome is negative. Putting corn-based ethanol in gasoline via this program makes our society worse off rather than better off.

I know that statement is going to fill my e-mail inbox with angry missives, but a lot of different researchers have looked at ethanol programs and the conclusions are pretty uniform. It is an expensive way to help the environment and it is an expensive way to increase rural employment or raise farm incomes. If we want to achieve any of those objectives, there are alternatives that will give more bang for the buck.

So why do Minnesota and other states have expensive ethanol programs if they're inefficient? Mancur Olson, an economist who once described himself as "nearly a Minnesotan" since he grew up just across the North Dakota line from Climax, Minn., had an explanation.

In his book "The Logic of Collective Action," Olson analyzed situations in which a small group stood to gain a lot from a government action whose costs were borne by a much larger group. Getting the government to act makes a lot of difference to each member of the small group, encouraging them to lobby. But since any member of the larger group faces only a small cost, no individual has much of an incentive to counter-lobby. As a result, Olson argued, the small group will win out.

In the case of ethanol, there are just over a dozen Minnesota towns with ethanol plants. Citizens in them, particularly those who belong to cooperatives that own or run the plants, have a strong incentive to lobby lawmakers.

In addition, there are some thousands of other farmers and small-town residents who view ethanol plants favorably even if they do not benefit financially. And there are thousands more who will support any measure that is able to clothe itself in the robes of environmentalism, whatever the cost.

On the other side, 2 million Minnesota households pay \$10 or \$20 in annual taxes to fund Minnesota's ethanol subsidies and they pay substantially more in high gasoline prices because of the requirement to blend ethanol in gas. The cost is substantial for all Minnesotans as a whole, but not galling or visible enough to any single household to provoke dissent.

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That, in a nutshell, is Olson's "collective action" model of why societies implement public programs that make them, on the whole, worse off.

There are, however, other explanations.

Some political scientists argue that farm groups know ethanol is an inefficient way to raise farm incomes and that environmentalists know that there are more effective ways to reduce harmful auto emissions than using gasohol. But more effective alternatives such as direct payments to farmers for pro-environmental practices and higher taxes on gasoline to reduce emissions won't get off the ground in the Legislature. They're too vulnerable to political demagoguery from one party or the other.

In this view, bad, ineffective and costly policies are implemented — and good, effective and cheaper ones are rejected -- because of bad information. If one could better educate the public and their elected representatives about alternative ways to achieve desired ends, the argument goes, society would be better off.

Time and our legislators will tell who is right. But in any case, the public discussion about ethanol is useful for our state.

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