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Welfare-Case Companies: ADM and Big Agriculture

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More than 40% of the company's annual profits come from products that are either heavily subsidized or protected through trade tariffs.

Tax subsidies for the ethanol industry totaled $6 billion in 2009, according to a new report from the Congressional Budget Office. And last year, the CBO showed that the increased use of ethanol was responsible for a rise in food prices of approximately 10-15%.

Why?

We're turning corn into fuel -- a highly inefficient one, at that -- instead of food.

The Mackinac Center for Public Policy pointed out that "mixing food and fuel markets for political reasons has done American consumers no discernable good, while producing measurable harm."

In an editorial, the *San Antonio Express-News* wrote:

> Congress has mandated that an increasing amount of ethanol be blended into the nation's fuel supply through 2022. That means there's a guaranteed, established, steadily growing market for ethanol. Why does the industry need a $6 billion tax break, one that principally benefits corporate giants like **Archer Daniels Midland** (ADM)?
>
> It doesn't. In a time that begs for fiscal restraint, Congress should end ethanol subsidies that have long outlived their usefulness.

And, as Mark J. Perry, professor of economics and finance at the University of Michigan-Flint, put it:

> Anytime you have Paul Krugman agreeing on ethanol with such a diverse group as the *Wall Street Journal*, *Reason Magazine*, the Cato Institute, *Investor's Business Daily*, *Rolling Stone Magazine*, the *Christian Science Monitor*, the *New York Times*, John Stossel, The Ecological Society of America, the

> American Enterprise and Brookings Institutions, the Heritage Foundation, George Will, and *Time Magazine*, you know that ethanol has to be one of the most misguided public policies in US history.

But, using just 1% of its arable land, Brazil managed to produce 6.57 billion gallons of sugar ethanol, roughly half the annual oil production of Iraq. Ethanol accounts for about 50% of Brazil's automotive fuel. General Electric and Brazilian aircraft maker Embraer are working to develop ethanol suitable for powering commercial aircraft, with a test flight possible by early 2012. Most importantly, Brazil relies on imported oil for only 10% of its energy needs today -- due in large part to its ethanol industry.

So, what's Brazil doing right?

The answer is simple. Unlike the United States, Brazil makes its ethanol from sugar, which yields over eight units of energy for each unit invested, whereas corn-based ethanol yields a paltry one and a half units of energy for each unit invested. Sugar-based ethanol is also cheap to produce, at only $0.60 a gallon. (Though, to be sure, as Nikolas Kozloff writes in a recent issue of *Foreign Policy* magazine, sugarcane cultivation is also ecologically devastating -- in recent years, two dozen companies have been fined for illegally clearing some 143,000 acres of Brazilian rainforest to plant sugarcane.)

Why the unceasing support for corn ethanol here in the States?

In 1973, Earl "Rusty" Butz, President Nixon's USDA chief, did away with the agricultural price supports introduced by the Roosevelt administration. These supports were intended to protect farmers' finances by limiting supply when bumper crops would have otherwise flooded the market and to avoid squeezing consumers by releasing the warehoused grain when crop yields were low and prices would naturally spike.

Butz ginned up political support for the administration by encouraging farmers to plant "fencerow to fencerow" while the government provided them with subsidies to cover the difference between market prices and production costs.

Of course, growing "fencerow to fencerow" did exactly what one would expect: Production exceeded demand, and prices took a dive. This didn't sit too well with ADM, the nation's largest corn refiner.

Now, there's only so much corn one person can eat. ADM suddenly needed to figure out how to somehow stimulate sales of all that excess food. Then a Japanese technique called "wet milling" caught the company's eye. Wet milling turned corn kernels into what ADM hoped would be a low-cost alternative to sugar -- the now-ubiquitous high-fructose corn syrup.

While high-fructose corn syrup was an alternative to sugar, it still wasn't possible to manufacture cheaply enough to make it a low-cost alternative.

Enter Dwayne Andreas, who, during the Carter administration, was ADM's CEO.

It just so happened that Florida sugarcane growers were in the middle of a push to get Congress to impose a tariff on foreign sugar, which was exerting downward pressure on market prices. Andreas decided to help fund lobbying efforts by Florida sugarcane growers to convince Congress to impose a quota on non-US sugar, which had been flooding the US market and keeping prices down.

In short, ADM backed its competition's political agenda and, when Ronald Reagan took office, the sugar tariff was swiftly ushered into place. Naturally, sugar prices escalated, eclipsing the cost of ADM's high-fructose corn syrup. Soft-drink makers like **Coca-Cola** (KO) and **Pepsi** (PEP) switched to the cheaper alternative in short order.

Perhaps this is why a statue of Ronald Reagan stands at ADM headquarters. It's a token of appreciation from one free marketeer to another for promoting what is, essentially, a socialist policy.

ADM's CEO, Andreas, did seem to view our capitalist society through the same lens as most others. In one interview, he said, "There isn't one grain of anything in the world that is sold in a free market. Not one! The only place you see a free market is in the speeches of politicians. People who are not in the Midwest do not understand that this is a socialist country."

From the looks of things, "socialism" has done well for Dwayne Andreas. A report by James Bovard of the Cato Institute notes, "At least 43% of ADM's annual profits are from products heavily subsidized or protected by the American government. Moreover, every $1 of profits earned by ADM's corn sweetener operation costs consumers $10."

Minyanville professor and Houston fund manager Ryan Krueger says:

> The sugar tariff is the biggest scam since one-hour Martinizing. For the first time in human history, more than a billion people this year will be classified as "chronically hungry." We'll artificially sweeten prices for US farmers, bankrupting poor farmers in Africa or South America, and then turn around and send them food aid.

He continues:

> The world sugar price is $0.22 per pound. The US price because of the tariff? $0.44. Want to make candy and buy sugar for $0.22? Sorry, no can do -- it's illegal. If sugar prices plummet? Don't sweat it, Washington's got that covered, guaranteeing a price of no less than $0.18.

Surely, there must be more to this story.

Nope.

In Krueger's words:

> I'd love all the upside and none of the downside in a game where my competitors are barred from playing against me, yet if I still somehow fail to perform the scoreboard operator nonetheless puts up points for me -- as long as I vote for the right referee when his contract's up.

Okay, so ADM hijacked the sweetener market. What does this have to do with Brazilian ethanol and our country's insistence on forging ahead with subpar ethanol made from corn, even though tariff-free cane ethanol would cut gas prices significantly?

The path leads directly to good old political back-scratching.

You'd be correct to assume that demand for soft drinks drops during the cold winter months. What would ADM do with idle wet-milling equipment during high-fructose corn syrup's "off season"?

It turns out that wet-milling machines also make ethanol.

The federal government provides a $0.45-per-gallon subsidy for domestically produced (corn-based) ethanol. Add to that the crippling sugar policy, plus a $0.54-per-gallon tariff placed specifically on foreign ethanol (sugar based, from Brazil), and bang -- ADM corners the domestic ethanol market. Pretty crafty, huh?

Fed Chairman Ben Bernanke says, "As you know, I favor open trade and I think allowing Brazilian ethanol, for example, would reduce costs in the United States."

And C. Ford Runge, an economist specializing in commodities and trade policy at the Center for International Food and Agricultural Policy at the University of Minnesota, says, "the obvious thing to do is lower that [sugar] tariff and let some Brazilian ethanol come in. But one of the fundamental reasons our biofuels policy is so out of whack with markets and reality is that interest-group politics have been so dominant in the construction of the subsidies that support it."

Until corporate welfare takes a backseat to real, proven solutions that help stateside consumers save a bundle at the pump (and help our less-prosperous allies financially), corn will remain king.