White House Decision to Use Ethanol in Summer Fuel is Bad News for Food Prices

April 12, 2022 - When the federal government released its report on inflation this morning, it was quite a bit worse that expected; and expectations weren't good in the first place. According to the report, the current inflation rate is 8.5%. And since much of the inflation we're seeing right now is because of the high cost of fuel, some in Washington are scrambling to drive those prices down. But are they opening up pipelines, or encouraging more drilling for oil? The answer is "no." Their big idea is the allow the use of high-ethanol fuels during the summer months under the premise that ethanol is cheaper than oil. It's an assumption that is way off the mark and which could have an even more detrimental effect on inflation.

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The announcement on ethanol apparently came from the White House. At this point, the administration is looking like it is desperate for some good news as we approach the midterm elections.

The problem with it is that ethanol comes from corn. And that creates two very big issues. First is that the cost of growing corn has already gone through the roof. This is due to both fuel and fertilizer prices; both of which have more than doubled. As a result, many farmers have switched out their crops from corn to those that are lower in cost to grow, such as soybeans. That means that there will be even less corn on the market which will further push up its price.

All of this means that the price of ethanol will also go up, so there is no guarantee that allowing its use during the summer months will drive down fuel prices.

The second issue created by this decision is that it will drive up the prices of food. There is almost no doubt about that. All you have to do is walk into your local grocery store and start reading product labels. It won't take you long to figure out that corn is used in almost anything that it edible. Using corn to make fuel means that there will be less of it to make food. That's going to drive the price of food up. Potentially, way up.

Whoever is making economic decisions for this administration is inept. That's pretty clear. It reminds me of the story of MCI WorldCom; once the second largest long-distance company in the United States. The company was completely over-leveraged and near the end, when things were getting bad and the company was trying to save money, there were executive going from office to office removing the coffee makers in the break rooms to try cut their expenditures. That move didn't even make a dent in the budget of a multi-billion-dollar company, and it didn't prevent is bankruptcy. They should have been focused on other things that might have actually helped save the company.

This move on ethanol is a lot like that. It's an exercise in futility that will lead to some unintended consequences. Not only is it sad, it's frightening. The sky is actually falling and if this is the only thing they can come up with, we're in real trouble.
by Jim Malmberg
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