

Cato Institute Policy Analysis No. 241: Archer Daniels Midland: A Case Study in Corporate Welfare

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Executive Summary

The Archer Daniels Midland Corporation (ADM) has been the most prominent recipient of corporate welfare in recent U.S. history. ADM and its chairman Dwayne Andreas have lavishly fertilized both political parties with millions of dollars in handouts and in return have reaped billion-dollar windfalls from taxpayers and consumers. Thanks to federal protection of the domestic sugar industry, ethanol subsidies, subsidized grain exports, and various other programs, ADM has cost the American economy billions of dollars since 1980 and has indirectly cost Americans tens of billions of dollars in higher prices and higher taxes over that same period. At least 43 percent 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, and every \$1 of profits earned by its ethanol operation costs taxpayers \$30

One of the most politically charged debates in Washington revolves around business subsidies known as "corporate welfare." A number of policy organizations have published studies examining the corporate welfare phenomenon: what qualifies as corporate welfare, how much it costs taxpayers, and how much it damages the economy. This study examines the dynamics of corporate welfare somewhat differently by investigating ADM as a classic case study of how those subsidies are obtained, how the welfare state encourages such "rent seeking," and how such practices fundamentally corrupt the political life of a nation. Congress's expressed desire to foster a free marketplace cannot be taken seriously until ADM's corporate hand is removed from the federal till.

Introduction

ADM is certainly the nation's most arrogant welfare recipient. And it is one of the few welfare recipients that spend millions of dollars each year advertising on Sunday morning television shows populated and watched by politicians. Chairman Dwayne Andreas's and ADM's success in farming Washington represents the rational result of contemporary government policies that turn elections into "an advanced auction of stolen goods," as H. L. Mencken quipped. Thanks to its multi-million-dollar hustling in Washington, a company that lives and dies on the generosity of the American taxpayer has managed to get itself revered as a great public servant. Although ADM is not the only corporation with its hand out in Washington, it is easily one of the most successful beggars on the block.[1]

Andreas recently told a reporter for Mother Jones, "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." [2] Andreas's comment about "no free markets" is like the

old joke about the son who murdered his parents and then asked for the court's mercy because he was an orphan. ADM champions political control over markets and then invokes that control as an excuse for its continued political manipulation. Andreas has exerted his influence in Washington to ensure that the U.S. form of "socialism" resembles 1930s' Italian corporate statism: the government plunders the citizenry for the benefit of politically connected corporations. And, though Andreas does not like to admit it, there are many markets in the world for agricultural products that are not controlled by politicians.

This past May ADM ran in major newspapers a full-page, full-color ad showing a corn cob decorated with the American flag with a picture of President John F. Kennedy along with Kennedy's most famous slogan, "Ask not what your country can do for you--ask what you can do for your country." The advertisement is the ultimate Orwellian agit-prop exercise, the true message being, "Ask not what your country can do for you, ask what you can do for ADM." Such misleading "public service" ad campaigns are the staple of ADM's public relations operation, providing the thin cover necessary to plunder the public till.

Although much has been written lately on ADM and its harvest of taxpayer dollars, the full scope of its parasitic relationship with the U.S. taxpayer has rarely been closely examined. This study provides that detailed examination as well as an insight into the political dynamics that encourage corporate leaders to profit, not by pleasing consumers, but by pleasing politicians. The study also examines the three main arenas for ADM's corporate rent seeking: the ethanol program, the sugar program, and subsidized grain exports.

Tithing at the Church of Subsidy

Andreas has long talked and behaved as if he had a divine mission to give as much money as possible to as many politicians as possible. The Washington Post noted in 1985 that "Andreas said he was raised in a religious tradition that called for 'tithing' 10 percent of personal income to the church. And, he adds, 'I consider politics to be just like the church.'"[3] Andreas likewise declared in 1990, "I was raised to believe you're supposed to support your mayor and your congressman and your politicians. . . . If a fellow is willing to devote his life to public service, and a fellow like me has more money than I ever dreamed existed in the whole world, wouldn't I be an ass if I didn't respond to requests?"[4] One should not be surprised that the "public services" that Andreas rewards are services that subsidize ADM.

The Wall Street Journal declared on July 11 that "for more than two decades, Mr. Andreas has reigned as the prince of political influence." [5] The Washington Post described Andreas as "one of the great financial 'switch hitters' of American politics," meaning that ADM will bankroll any politician who supports ethanol or sugar subsidies regardless of political creed or ideological convictions.[6] Andreas has done a masterful job of diversifying his investments by carefully cultivating both Senate Majority Leader Bob Dole and Senate Minority Leader Tom Daschle. The New York Times in 1990 called Dole "ADM's staunchest ally on Capitol Hill." [7] The Wall Street Journal likewise recently reported, "In the Senate, Mr. Dole has been the chief promoter of the ethanol subsidy." [8] The Times also noted that "ADM's private plane has flown Dole to Midwest speaking engagements, and for a time ADM sponsored Dole's commentaries over the Mutual Radio Network. The Senator and his wife, Elizabeth Dole, then Secretary of Labor, purchased an apartment from Andreas in 1982 at the Sea View, a Bal Harbour, Florida, hotel in which residents hold shares. They paid \$150,000--less than the apartment's market value." [9] Since 1993 Dole has accepted 29 flights on ADM's private planes (Dole reimburses the company for the price of a first-class ticket--far less than the cost of chartering a private plane). [10] After Elizabeth Dole became the head of the Red Cross, Andreas's nonprofit foundation gave \$1 million to the Red Cross. Andreas also donated \$100,000 to Bob Dole's now defunct Better America Foundation.

Since 1979 Andreas, family members, and ADM have contributed more than \$4 million to congressional and presidential candidates, as well as to the national Democratic and Republican parties.[11]

In the two years before the 1992 election, ADM gave \$772,000 to Republicans but only \$136,500 to Democrats.[12] But the likelihood of Clinton's victory did wonders for Andreas's bipartisan spirit. According to the Wall Street Journal, "Andreas, whose personal contributions heavily favored Republican candidates in 1992, weighed in a mere six days before the presidential election with a \$50,000 contribution to the Democrats' congressional campaign

committee." [13]

Frank Greven of Knight-Ridder News Service noted earlier this year that, in the 1992 presidential race, "Andreas and his family and his companies gave a combined total of nearly \$1.4 million to Democratic and Republican party efforts on behalf of Clinton and Bush. Among Democratic party givers, Andreas and company ranked third, according to a tabulation by the Center for Responsive Politics. Among Republican party givers, they ranked first. Andreas-related contributions to individual candidates were also split in November's mid-term elections: \$461,500 to Democrats, \$325,268 to Republicans. Hundreds of thousands of dollars more, like the Red Cross contribution, have flowed from the Andreas Foundation or the ADM Foundation to charitable causes championed by key lawmakers like Dole." [14] Andreas is even a dedicated caretaker of the image of dead politicians: he donated \$1 million--the largest donation received so far--to the Richard Nixon Center for Peace and Freedom.

As the Charlotte Observer's Frank Greven notes, Andreas has also been generous to House Speaker Newt Gingrich. "Andreas' large and pre-victory contribution to Gingrich was a reported \$70,000 to GOPAC, the nonprofit organization used by Gingrich since 1987 to pay for airline travel, mail videotapes and speeches and generally build national visibility for Republican candidates." [15] Gingrich, responding to widespread criticism, distanced himself from GOPAC in May.

Andreas donated \$100,000 to a single Democratic fundraising dinner in 1994. [16] In the first 18 months of the Clinton administration, as Peter Stone of the National Journal reported, Andreas and ADM donated over \$300,000 "in soft money to Democratic groups--roughly six times what they contributed to Republicans." [17]

Andreas has also reached into his pocket to help politicians in their personal struggles. When Sen. Tom Harkin (D-Iowa) was sued for libel in 1986 because of a campaign statement, Andreas gave \$10,000 to a legal defense fund for Harkin and two aides. [18] When former president Jimmy Carter decided to get out of the peanut business, Andreas was there with a check for \$1.2 million to help Carter promote Habitat for Humanity. [19]

Dwayne Andreas: Donor with a Cause

Perhaps not surprisingly, Andreas's penchant for funding politicians has repeatedly run him afoul of the law. Mother Jones, for example, has reported, "In a recently released deposition, Richard Nixon's secretary, Rose Mary Woods, recalled a 1972 personal visit from Andreas in which he delivered an unmarked envelope containing \$100,000 in \$100 bills. The cash spent a year or so in a White House safe before Nixon, with the Watergate investigation closing in around him, decided to give it back." [20] The Los Angeles Times noted last year that "a \$25,000 [Andreas] campaign contribution in 1972 to Nixon fundraiser Kenneth Dahlberg turned him into what he once described to the Washington Post as an 'innocent bystander' in the Watergate scandal. That money ended up in the bank account of Watergate burglar Bernard Barker, giving investigators the first link between the Watergate break-in and the Nixon campaign committee." [21] Of course, most "innocent bystanders" do not offer \$25,000 in cash to people who can do them big favors.

Senator and Vice President Hubert Humphrey was one of Andreas's first major sweethearts in Washington. The Washington Post reported that "Andreas introduced Humphrey to business leaders, paid for the military school education of one of his children, and managed Humphrey's blind financial trust." [22] Andreas was indicted by Watergate special prosecutor Archibald Cox for making an illegal contribution of \$100,000 to Humphrey's 1968 presidential campaign. He was acquitted of that charge by a Minnesota jury.

Between 1975 and 1977 Andreas gave \$72,000 in ADM stock to the children of David Gartner, then-senator Humphrey's chief of staff. After President Carter named Gartner to the Commodity Futures Trading Commission in 1977, news of the ADM windfall leaked out. Because ADM, like other major agricultural and grain corporations, is heavily involved in commodity futures trading, the handouts raised red flags throughout Washington. Vice President Walter Mondale took the lead in pressuring Gartner to resign "on the grounds that the ethical appearances surrounding that matter were such that he could not operate without public questioning of his integrity and the independence of his judgment." [23] Gartner, however, refused to budge. [24]

More recently, Andreas and his wife, Dorothy, paid an \$8,000 fine to the Federal Election Commission in 1993 for

exceeding legal limits of \$25,000 a year in contributions to political candidates.[25]

One amusing aspect of Andreas's bipartisan bankrolling is that both parties realize he has no specific loyalty to them, but as long as he and his cohorts are willing to write checks for millions, members of Congress and presidents are happy to perpetuate billions in handouts for ADM. Regardless of how much such a deal costs American taxpayers and consumers, it is still profitable for politicians. ADM's success highlights the absurdity of the interventionist state in which imaginative and highly skilled political businessmen can get hundredfold returns on their handouts to politicians.

Although Andreas has pulled all the strings to ensure that ADM's own gravy train continues, he is at least patriotic enough to believe that Congress and the president must act to end the federal deficit. On January 26, 1993, six days after Bill Clinton had taken the oath of office, Andreas bravely called for shock therapy and \$150 billion in new taxes. "I think it's time for Americans to face up to the fact that we have to accept the taxes that will keep our country solid and preserve our democracy." [26] Fiscal sacrifices, apparently, must be made by the taxpayers but not by the recipients of taxpayer largesse.

The basic problem here is, not that businessmen occasionally give large sums of money to politicians, but that what they are trying to "buy" ought not to be for sale in the first place. Mencken's "advanced auction of stolen goods" has two guilty parties, the auctioneers and the bidders. And it is the auction--not the existence of wealthy bidders--that cries out for attention.

Ethanol: The Great Agricultural "White Hope"

Nothing symbolizes ADM's political exploitation of Americans better than ethanol. Ethanol has become a magic obeisance button for politicians. Simply mention the word and politicians grovel like trained dogs, competing to heap the most praise on ethanol and its well-connected producers. Regardless of how uncompetitive the product may be, politicians have for years talked about ethanol as if it were the agricultural equivalent of holy water. Ethanol producers have received a de facto subsidy of nearly \$10 billion since 1980--yet they continue demanding more, more, more.

Andreas has long sought to frame the ethanol issue in histrionic terms. Burning tax dollars to artificially jam ears of corn into gas tanks seems to have near-cosmic significance. In 1988 Andreas hailed ADM's ethanol operations as "a service to corn growers" and "a service to humanity." [27] Andreas declared in 1992, "This is the Midwest vs. the Middle East. It's corn farmers vs. the oil companies." [28] Ethanol producers view themselves, not as self-serving corporations at the federal trough, but as veritable Mother Therasas striving to save the world with clean air and renewable resources.

Ethanol is produced by distilling corn into alcohol. Ethanol is simply grain alcohol--"white lightning"--the same substance used to fortify MD 20/20 or gin. Ethanol can be mixed--one part ethanol to nine parts gasoline--to make gasohol. Tom Donlan, editorial page editor of Barron's, observed last year that the ethanol controversy is simply one more episode in the dispute over corn whiskey that has been going on since the birth of the American Republic: "200 proof corn liquor is still the same stuff for which western Pennsylvania farmers fought the Whiskey Rebellion of 1792. In this more complicated age, a new Whiskey Rebellion must be fought by aggrieved taxpayers" against wasteful ethanol subsidies. [29]

Although proponents of ethanol argue that such fuel is better for the environment and helps reduce America's reliance on foreign oil (while not at all incidentally providing a new market for corn farmers), the fuel itself is inferior to straight gasoline and the collateral benefits promised by supporters are fewer than meet the eye.

Ethanol 101

Ethanol producers receive an array of subsidies from federal and state governments. The largest subsidy is the exemption from federal fuel taxes. Gasoline companies receive a tax break of 5.4 cents for each gallon of gasohol they sell. Because gasohol is usually sold in a mixture of nine parts gasoline to one part ethanol, each gallon of ethanol receives the equivalent of a 54 cent break from the federal tax code. While it is often misleading to speak of tax deductions and credits as the equivalent of a direct federal subsidy, it is certainly the case that, without the massive

distortion of the tax code, there would be no ethanol industry, given the large cost differential in the production of ethanol and traditional gasoline.

Ethanol subsidies reduce federal revenues by \$770 million a year,[30] losses that the Congressional Research Service estimates could rise to \$1 billion by the year 2000.[31] Many state governments also heavily subsidize the production or use of ethanol.[32]

Federal policy is not designed to simply "level the playing field," or even to tilt the playing field in ethanol's favor. Instead, the program amounts to nothing less than buying the entire playing field and giving the title directly to ethanol producers. Ethanol, as far as it is used for gasoline, is a political concoction--a product that exists and is used solely because of the interference of politicians with the workings of the marketplace. Ethanol producers must heavily bankroll politicians because their product would otherwise vanish overnight from the nation's gas pumps.

As early as 1979 the Washington Post reported, "The gasohol lobby says the \$18.80 a barrel in available subsidies-- compared with the \$16 a barrel cost for foreign oil-- is not enough." [33] The tax exemption or credit for ethanol production has consistently exceeded the entire value of the gasoline that ethanol displaces. The 54-cent-per-gallon tax deduction or credit is the equivalent of a subsidy of \$23 per barrel of oil displaced at a time when oil costs only about \$18 a barrel.[34]

In 1986 the U.S. Department of Agriculture estimated the average cost of producing ethanol at \$1.60 a gallon, more than double the then wholesale gasoline price of 60 cents a gallon (the current wholesale price is roughly 55 cents).

The ethanol debate is unlike the typical economic argument for an infant industry to which the government provides small subsidies or trade protection for a short period to help the new industry get on its feet. Instead, a perpetual, massive subsidy has been maintained in order to keep an existing industry from sinking under the weight of its own helpless uncompetitiveness. Rather than an infant industry, ethanol is an industry that, in economic terms, was born senile and has since gotten fat.

Ethanol has done poorly on its own largely because it is a relatively lousy fuel. An Agriculture Department report observed,

Each gallon of ethanol contains about two-thirds as much energy as does gasoline, resulting in reduced fuel economy. One would expect vehicles using gasohol to show about a 3.3 percent reduction in miles per gallon since ethanol constitutes 10 percent of the ethanol-gasoline blend. In a recent report on the performance of alcohol-gasoline blends, the DOE concluded that gasohol-fueled vehicles averaged 4.7 percent fewer miles per gallon than gasoline-fueled vehicles in automobile fleets.[35]

The comparatively feeble fuel value of ethanol is a large part of the reason why the fuel is so discounted from its cost of production. The USDA report further noted,

Fuel ethanol sold for about \$0.90 per gallon in July 1986. This price does not reflect its free market value because gasoline blenders qualify for Federal and State ethanol subsidies. After deducting the value of the subsidies (\$0.60 per gallon for the Federal subsidy and some \$0.30- \$0.40 average for State subsidies) the net cost of ethanol to blenders is about zero. This indicates that ethanol producers could not survive without the subsidies, and suggests that most will need even larger subsidies to stay in business unless petroleum prices increase sharply. Net of applicable subsidies, ethanol is selling for about \$0.30 per gallon less than the wholesale price of gasoline.[36]

Yet, while ethanol was selling (net of subsidies) for half the price of gasoline, it cost more than twice as much to produce as gasoline. Obviously, government intervention is necessary.

The Politics of Ethanol

Ethanol has long been the "great white hope" of the farm lobby. Since the era of the Civil War, farm lobbyists have called for government subsidies to convert crop surpluses into fuels and thereby make the surpluses disappear and

drive up crop prices forever. However, the ploy has not worked out very well. The Congressional Research Service, in an analysis of federal subsidies and tax incentives for ethanol, concluded in an October 1994 report,

For four reasons, the alcohol fuels tax incentives are economically less efficient than alternative energy tax policies:

- (1) They provide subsidies to alcohol fuel producers when economic principles suggest that no subsidy, and maybe even a tax, should be imposed;
- (2) They fail to fully tax users of alcohol fuels in transportation on a par with users of gasoline and commensurate with the benefits received from the system of national highways;
- (3) The tax component that corrects for the negative environmental externalities from the combustion and evaporation of alcohol of vehicles is the same as gasoline when theory and evidence suggests that it be less than for gasoline;
- (4) As a policy to stimulate alternative fuels, targeting alcohol subsidizes more expensive fuel when economic theory suggests that the market will determine the least expensive fuels to use.[37]

The rationale for ethanol subsidies has continually changed to meet shifting political winds. In the late 1970s ethanol was championed as a way to achieve energy independence. In the early 1980s ethanol was portrayed as salvation for struggling corn farmers. From the mid and late 1980s onward, ethanol has been justified as saving the environment. However, none of those claims can withstand serious examination.

Using ethanol for vehicle fuel is hardly a new practice. In fact, ethanol has been used for fuel for more than 100 years. A USDA report noted, "The use of alcohol as an automobile fuel dates back to the first modern internal combustion engine, the Otto Cycle (1876), which used alcohol as well as gasoline. Henry Ford designed the Model T (1908) to use alcohol, gasoline, or any mixture of them." [38] State and federal governments have long striven to rig the economic playing field to benefit ethanol producers.

By the early 1970s the use of ethanol for fuel had almost completely disappeared in the United States. But, after President Nixon took the United States off the gold standard and slashed the value of the dollar, the Organization of Petroleum Exporting Countries was formed and launched its brief embargo of oil sales to the United States. Ethanol then found a new lease on life, as midwestern states rushed to create tax incentives and loan programs for ethanol production. In 1977 Congress passed an act directing the secretary of agriculture to invest \$60 million in guaranteed loans for ethanol distilleries.

When OPEC restricted oil production again in 1978--and the Carter administration tightened oil and gasoline rationing, creating artificial panic--Andreas arrived at the White House with a salvation scheme. Why not increase subsidies for ethanol? According to Frank Greven, who is working on a book on Andreas and ADM, "During the 1978 Persian Gulf oil crisis, he convinced Carter that using ADM's ethanol as a lead-free octane booster in gasoline would promote energy independence and cleaner air." [39] As part of its grandiose solution to the energy crisis--which the president proclaimed to be the moral equivalent of war--the Carter administration drove through Congress a plan to exempt gasoline with 10 percent ethanol from the 4-cents-a-gallon federal fuel excise tax.

Even with the extremely generous federal tax credits for ethanol use, the alternative fuel still did not take off. Politicians decided that massively subsidizing ethanol's use was not sufficient; they must also massively subsidize its production.

Not all were fooled by the near-religious tone of the pro-ethanol campaign in the late 1970s. Syndicated columnist Jane Bryant Quinn observed at the time, "The recipe for successful politics shows similar proportions: nine parts of regional pandering, overlaid with one part national purpose. The explosive mixture of excess corn in an election year ignited the gasohol program and will keep it running." Quinn related widespread and accurate perceptions of the defects of gasohol. "Vapor lock (boiling in the fuel pump) is more prevalent with gasohol. It's more explosive than gasoline. The first time you put it in your tank it might loosen some rust and clog some lines. The EPA says that you'll

get about 3 percent fewer miles per gallon with gasohol. If you don't correct for the lower mileage by driving a more fuel-efficient car (or driving less), you'll fritter away the oil savings by tanking up more often." [40]

On the eve of the 1980 election, the Carter administration announced a deluge of loans to companies to build processing plants to make ethanol. On October 9, 1980, Secretary of Agriculture Bob Bergland announced \$341 million in new loans to finance construction of gasohol plants. [41] On January 27, 1981, the new Reagan administration rescinded all the loans after its inspector general discovered that the Carter administration had violated official procedures and federal law in awarding many of the grants. Testimony by private investigators at a congressional hearing in February 1981 revealed that some of the loans were "reviewed in a matter of days, some in a matter of hours." Bruce Yellen of the Chicago-based Better Government Association told Congress, "Two loan guarantees were approved for individuals who had contributed to the Democratic National Committee or the Carter campaign. And 10 of the 15 guarantees went to states that were, at the time, considered critical to the president's re-election bid. These elements suggested that this last-minute rush was politically inspired, and our interviews with agency officials substantiated that point." He said that one official said that an October 10 announcement of the guarantees was timed as "a public relations ploy for political gain." [42]

Although the Reagan administration initially blocked the loans, the farm lobby prevailed and the new administration added its seal of approval to ethanol. Nevertheless, 9 of the 12 recipients of the loans the Farmers Home Administration made for ethanol plants went bankrupt.

The Energy Department also got into the ethanol game and has lost more than \$100 million on recipients' defaults on ethanol loans. Andreas was less than pleased at the prospect of more tax-subsidized competition. On August 20, 1981, he wrote to James Stearns, then director of the Office of Alcohol Fuels at the Department of Energy, to urge the government not to go through with loan guarantees it had announced for 11 small ethanol producers. He noted, "It is very clear to me that your program to finance totally inexperienced individuals in their investments mostly as tax shelters is counterproductive in that it has discouraged the flow of private capital into new facilities." [43] Andreas went on to complain about Brazilian ethanol imports in the same letter. At the time, ADM controlled over 70 percent of ethanol production facilities in the United States.

Andreas's single largest rip-off of taxpayers occurred in 1986. The price of corn had risen and the price of gasoline had fallen. Clearly, ethanol had become a greater economic absurdity than ever. Andreas and ethanol supporters had an easy solution: make ethanol pseudocompetitive again through USDA gifts of free corn. Andreas and his top lobbyist met with USDA secretary Richard Lyng for a breakfast at the Madison Hotel in Washington. Two days later Lyng announced a new program under which ADM would receive \$29 million in free corn and other ethanol producers would receive multi-million-dollar corn windfalls. The USDA's Office of Energy proposed targeting the free corn to only those ethanol producers that were in severe financial distress. But Secretary Lyng personally vetoed the "means test" idea as unfair. Lyng declared that imposing a means test "didn't make sense to me at all. . . . I think the government should treat people equally. . . . The Constitution calls for that." [44] But, because only a handful of ethanol producers were eligible for the multi-million-dollar giveaway, Lyng's profession of concern about "equal treatment" was ludicrous, even by Washington standards. Jack Blum, a lawyer for the Independent Gasoline Markets Council, denounced the giveaway as "corporate food stamps for ADM." [45] One company, New Energy Corporation, received almost \$5 million worth of free corn and then went bankrupt a few months later.

Ethanol: Beggar Thy Farmer Neighbor

Agriculture secretary Mike Espy hailed the Clinton administration's mandate to force the use of ethanol in gas tanks. "One of my top priorities is improving farm income, and this initiative will do just that." [46] Indeed, the USDA currently estimates that each 100 million bushels of corn used for ethanol production increase corn prices by between 4 and 8 cents. Hosein Shapouri, one of the USDA's chief ethanol experts, estimated that the current level of 550 million bushels of corn used for ethanol production increases corn prices by between 22 cents and 40 cents per bushel. [47] Advocates of farm aid claim that the federal program--by boosting corn prices--boosts farm income by over a billion dollars a year.

The primary effect of ethanol subsidies on agricultural markets, however, is to allow corn farmers to charge hog

farmers and cattlemen higher prices. Roughly 60 percent of all the corn produced in the United States is used domestically for feed grain. For example, the USDA estimates that 5.6 billion bushels of the record 1994 corn crop will be used for that purpose.[48] Assuming that ethanol inflates corn prices by 22 cents a bushel, ethanol policies clearly cost cattle, pork, and other livestock producers more than a billion dollars a year. That fits the historical pattern of farm policy: intentionally sacrificing relatively unsubsidized farmers to subsidized farmers and making all farm profits and losses increasingly a question of political pull. The higher the price of feed grain, the higher the cost of meat production. Thus, consumers get hit from all directions.

Perhaps the most honest and thorough analysis of the effect of ethanol on farm income and taxpayers and consumers was done by the USDA's Office of Energy in 1986. That study, which included a lower estimate of the inflationary impact of ethanol production on corn prices, concluded,

Corn prices would increase by \$0.02-\$0.04 per bushel for each 100 million bushel increase in ethanol-induced demand for corn. However, soybean prices would fall by about \$0.04 per bushel and soybean prices would fall by \$0.12-\$0.15 per hundredweight.

Higher corn prices from additional ethanol-induced demand would increase the cost of producing beef, pork, and poultry. Consumer food expenditures would rise by \$8.6 billion, or an average of \$2.29 for each additional gallon of ethanol produced.

When all the costs and benefits are tallied, the Government, taxpayers and consumers together would lose \$6.1-\$7.2 billion or \$1.61-\$1.92 per additional gallon produced during the 1986-94 period if ethanol subsidies were increased enough to prompt the ethanol industry to produce 2 billion gallons in 1995. Conversely, if ethanol production falls to zero, they would save some \$6.8-\$8.9 billion, or \$1.35-\$1.76 per gallon not produced.[49]

The study concluded that increased production of ethanol would cost consumers and taxpayers roughly \$4 for each \$1 of extra farm income. The report stated,

Increases in consumer food expenditures caused by additional ethanol production far exceed the increases in farm income. Consumers would be much better off if they burned straight gasoline in their automobiles and paid a direct cash subsidy to farmers in the amount that net farm income would be increased by ethanol production.[50]

Since the USDA report came out, the amount of corn used for ethanol production has increased by more than 300 million bushels a year. Going on the report's assumptions, that means that soybean prices have been 12 cents a bushel lower than they otherwise would have been--a loss of \$300 million to soybean farmers on their 1994 harvest of 2.5 billion bushels.[51]

A more recent USDA analysis, published in November 1993, concluded that increased ethanol production would decrease soybean prices, boost variable production costs for livestock by \$462 million, and result in an overall loss of \$133 million for farmers outside the northern plains, the Corn Belt, and the Great Lakes states.[52] The study concluded that federal mandates could boost the amount of corn used to produce ethanol by 240 million bushels by 1997. But the net increase in corn use would be only 154 million bushels because the remainder of the corn used for ethanol will be corn that otherwise (if the additional ethanol use had not boosted corn prices) would have gone to export markets or been used as feed grain.[53]

Converting corn into fuel is not cheap. Fred Sanderson of Resources for the Future notes, "It would be cheaper to dump the corn into the ocean." [54] Even when corn is free, it is not possible to sell the ethanol for a profit without massive tax subsidies.

Unfortunately, the more effective ethanol is in driving up the price of corn, the less competitive both corn exports and ethanol become. Ethanol is only viable with relatively cheap corn. The USDA estimates that corn farmers will receive more than \$3 billion in direct federal subsidies this year. Farm aid advocates use two different arguments: one, that ethanol subsidies make the cost of farm programs lower than they would otherwise be and, two, that corn farmers

deserve more help anyway. However, corn subsidies have been far higher since ethanol came into vogue in the late 1970s than they were in the years just before the promotion of ethanol became federal policy in 1978 (Table 1).

Total federal subsidies for corn production since 1978 exceed \$67 billion. Although farm-state politicians often claim that ethanol subsidies are an excellent way to reduce other farm subsidy spending, the USDA concluded, "Subsidies

Table 1	
Federal Program Costs for Corn, 1975-95 (millions of dollars)	
Year	Cost
1975	150
1976	112
1977	400
1978	1,697
1979	867
1980	1,256
1981	-667
1982	4,207
1983	5,720
1984	-934
1985	4,403
1986	10,524
1987	12,346
1988	8,227
1989	2,863
1990	2,435
1991	2,387
1992	2,105
1993	5,143
1994	972
1995	3,701

Sources: USDA, "Feed Grains: Background for 1995 Farm Legislation," April 1995, appendix 4, p. 53; the value for 1994 and the estimate for 1995 are from USDA, "Budget Summary, 1996," p. 30.

required to sustain the ethanol industry will offset any savings in agricultural commodity programs resulting from the increased demand for corn." [55] If Congress is truly concerned about reducing government outlays on corn, it should simply abolish the corn program. That is the only sure way to save billions of dollars a year--far more than the nickel-and-dime savings alleged to result from the use of ethanol.

Ethanol and the Energy Security Chimera

In 1974 President Richard M. Nixon, responding to the Arab oil embargo, announced a goal of "energy independence" for the United States by 1980. Nixon's proclamation sounded like those frequently made by leaders of Third World nations that believe they can become rich by replacing imports at any cost while totally neglecting the efficiency of everything else in the national economy.

Much of the support for ethanol is based on a discredited mercantilist perspective, which implicitly assumes that it is

better to use American-made products, regardless of the cost, instead of imported products, regardless of the savings or benefits. The Congressional Budget Office, in a March 1995 report, noted,

Motor fuels blended with ethanol made up less than 1 percent of the total motor fuels market in 1980, but that proportion grew to nearly 7 percent by 1990. Because ethanol production uses more resources than gasoline production, the resulting allocation of resources may create economic inefficiencies if the value of those resources in alternative uses is greater than the value of the diminution in air pollution.[56]

Not only does ethanol cost roughly twice as much to produce as gasoline, but producing ethanol may actually be a net destroyer of energy. The Oil & Gas Journal reported in 1980 that production data from a 1979 application for a federal ethanol subsidy filed by ADM with the Energy Department stated that ADM's Decatur, Illinois, plant was producing 1,485 barrels of ethanol a day. At that time, the plant was consuming the equivalent of 1,284 barrels of natural gas to produce the ethanol, and the electricity used to power the plant was equivalent to another 46 barrels of gas a day. Thus, looking only at the energy used directly in ethanol production, analysts found that the plant showed a "net energy gain" of only 165 barrels of ethanol a day--less than 15 percent of the total ethanol produced. But, as the Oil & Gas Journal noted, "The ADM analysis presented to the Department of Energy, however, didn't disclose the energy input associated with growing, harvesting, and transporting the corn feedstock for the plant." [57]

Ethanol's drag on the energy supply continues to be a problem that few ethanol advocates enjoy admitting. As the Washington Post noted last year,

Many farmers use gas guzzling tractors and other energy-inefficient equipment that add to the total of air pollution and greenhouse gases. . . . Moreover, in many older ethanol plants, it takes more energy to make ethanol than the resulting product contains. In spite of ongoing modifications, many ethanol factories are powered by coal, another heavy source of greenhouse emissions. . . . Finally, the current method of manufacturing ethanol centers on the extraction of sugars from corn for fermentation, as well as the heating and cooling of the resulting liquid to distill alcohol. Both are heavily energy-intensive processes.

As a result, the net energy efficiency of ethanol is in question. One gallon of ethanol contains the energy equivalent of 76,000 British Thermal Units (BTUs). In 1991, the Department of Energy estimated that to make a gallon of ethanol required 85,000 to 91,000 BTUs.[58]

Ethanol's Environmental Smoke and Mirrors

ADM officials stress ethanol's environmental benefits, but that is a very different tune than was sung in the 1970s. In fact, the environmental problems of ethanol have long been obvious. The Clean Air Act of 1977 actually banned products such as ethanol. President Carter's EPA announced in 1978 that "recent EPA and Department of Energy tests . . . show slight increases in nitrogen oxide emissions and substantial increases in evaporate hydrocarbon emissions" from cars using gasohol." [59] But because ethanol amounted to only about 0.005 percent of the nation's gasoline sales, EPA administrator Douglas Costle ruled that "there is no significant environmental risk associated with its continued use." [60]

Since 1978 far more evidence has accumulated showing ethanol's harm to the environment. As a 1986 USDA report noted, "Alcohol blends are significantly more volatile than alcohol-free gasolines. Evaporative emissions reported for ethanol blends are 5 percent to 220 percent above emissions for straight gasoline." [61] A May 1990 study by former California Air Resources Board chief Thomas C. Austin concluded that the standard gasohol mixture of 90 percent gasoline to 10 percent ethanol "could cut carbon-monoxide emissions by 25 percent but that hydrocarbons would rise by as much as 50 percent and nitrogen oxide by 15 percent. Moreover, because gasohol gets a 6 cents per gallon subsidy (or 60 cents per gallon for pure ethanol), ethanol-using motorists end up paying more for dirtier air." [62] The National Academy of Sciences likewise concluded that "using ethanol as a blending agent in gasoline . . . would not achieve significant air-quality benefits and, in fact, would likely be detrimental." [63]

Federal agencies have also concluded that ethanol's environmental benefits, at least in terms of smog reduction, are either a mirage or a yet unproven wish.

- The Congressional Budget Office has found that "ethanol evaporates quickly, especially in hot weather, contributing to ozone pollution." [64]
- The Congressional Research Service has concluded that gasohol's environmental benefits have not yet been documented. [65]
- The Department of Energy has concluded that gasohol has provided no significant environmental benefit. [66]

Regardless, senators like Bob Dole have sought to attach provisions benefiting ethanol to many unrelated bills. The 1990 amendments to the Clean Air Act provided ethanol with one of its biggest windfalls ever. The act required motorists in the cities with the worst air quality to use gasoline with at least 2 percent oxygen. Many other cities voluntarily chose to use the reformulated gasoline.

When EPA proposed its initial implementing regulations for the Clean Air Act in March 1992, the standard for gasoline volatility would have effectively blocked the use of ethanol during the summer in the nation's most polluted cities. [67] However, the forces of farm evangelism and ADM- financed politicians soon jumped on the decision. As President Bush's reelection prospects worsened, ethanol's prospects brightened. On October 1, 1992, Bush announced plans to partially waive the volatility requirement to allow ethanol to be used even though it could cause more pollution. [68] Bush's announcement was jeered by environmentalists and others as a cynical ploy that sacrificed the environment to his political needs. After Bush's defeat, his proposal was effectively off the table.

Under the 1990 Clean Air Act, rather than an agency's issuing rules unilaterally, the major players were invited to negotiate what the rules would be in what is known inside the Beltway as a regulatory negotiation, or "RegNeg." As Chemical & Engineering News noted in 1992,

This regulatory negotiation approach was unprecedented in EPA's rulemaking process. Among others, representatives of the ethanol, oil, methanol, and auto industries and from the states were on the negotiating committee. All had their own ax to grind.

EPA and every member of the committee signed "an agreement in principle" in August 1991. EPA filed a supplemental notice of proposed rulemaking in April 1992, outlining the regulations that would govern the reformulated gasoline program. The negotiated agreement was the foundation for those proposed regulations. [69]

Ethanol was not mandated for use in gasoline largely because of the environmental problems that ethanol causes.

Although ethanol supporters signed the agreement, they quickly effectively reneged on the RegNeg. Ethanol advocates claimed that they had not understood that the agreement they signed would effectively prevent the use of ethanol in the summer in some of the nation's largest and most polluted cities. EPA unilaterally issued a waiver to permit the use of more volatile fuel additives. As Chemical & Engineering News noted,

Increased volatility poses a problem of more organic chemicals finding their way into the atmosphere. Blending 10 percent ethanol into gasoline, the usual ratio in gasohol, increases volatility of gasoline by 1 psi, as measured by Reid Vapor Pressure (RVP). The higher the RVP number, the more volatile the fuel. So despite how critical a volatility waiver is for ethanol, nowhere was ethanol specifically granted a 1-psi waiver from reformulated gasoline's volatility standards. [70]

On June 30, 1994, Clinton announced that the EPA would ignore the protests and impose its ethanol mandate on the nation's gasoline pumps. Clinton justified the ethanol mandate by declaring that it would provide "thousands of new jobs for the future" and that "this policy is good for our environment, our public health, and our nation's farmers-- and that's good for America." [71] EPA administrator Carol Browner claimed that "it is important to our efforts to diversify energy resources and promote energy independence." [72] Assistant Secretary of Energy Sue Tierney told a congressional panel a few days before the decision was announced that "the primary beneficiary will be ADM, since their ethanol profits would increase." [73] Assistant EPA administrator Mary Nichols conceded at the time that, as the Washington Post reported, "Ethanol use probably will not reduce greenhouse gas emissions in the short term because the production of corn requires substantial amounts of energy, some of which results in greenhouse gas emissions." [74]

The EPA waiver for ethanol's use in gasoline was the equivalent of allowing city trash trucks to drop as much trash on the streets as they pick up from the curbsides--and to double bill their customers. The federal government had gone from ignoring pollution to benefit big business to mandating pollution to benefit one specific fat-cat corporation.

The ethanol and farm lobbies' rolling of the Clinton administration on this issue sparked a fierce backlash from environmental groups and other Washington organizations. Fred Craft of the Oxygenated Fuel Association declared, "This is the biggest gasoline change in the history of America. What the hell is all this about? It has to do with market share. Ethanol interests don't want the risks of the marketplace influencing their profits." [75] As the National Journal noted, "Environmental activists cite a recent Energy Department study suggesting that the EPA rule could lead to a slight increase in pollution because of ethanol's volatility. And some state environmental officials testified at congressional hearings last spring that the mandate could worsen air quality and contribute to an increase in greenhouse gas emissions." [76]

The Clinton administration's fuel-rule rigging provoked an angry backlash from both liberal and conservative newspapers:

- The New York Times: "Ethanol will not clean the air beyond what the 1990 Clean Air Act would already require; nor will it . . . raise farm income very much or significantly cut imports. What the EPA's rule will do is take money from consumers and taxpayers and hand it over to Archer Daniels Midland." [77]
- The Washington Post: "The misuse of the environmental laws as patronage to benefit narrow economic interests is a mistake." [78]
- The Boston Herald: "The pandering to the farm lobby and big political donors could actually worsen air pollution." [79]
- The Houston Post: "Bad science, bad economics, and politics as usual." [80]
- USA Today: "Nothing is more likely to provoke a round of fat-cat-happiness than an open-ended federal rule that forces manufacturers and consumers to buy federally subsidized ethanol. It's a pork deal any fool could love." [81]
- The Houston Chronicle: "The requirement that a car's fuel be made from a renewable source like corn makes no more sense than to demand that its engine be made from wood." [82]

Forty-eight senators sent a letter of complaint to EPA administrator Carol Browner. "This rule will create chaos in the marketplace, cause serious RFG [reformulated gasoline] deliverability problems, and unnecessarily increase the cost of RFG to consumers. Lastly, and most importantly, the rule will result in no clear environmental benefits. . . . The ethanol industry is already one of the most subsidized industries in the world." [83]

ADM responded to criticism of its rule rigging with indignation. Howard Buffett, an ADM vice president (who resigned in July after news of the FBI antitrust investigation of ADM broke), declared, "It is always incredible to me that people accuse dedicated public servants of making judgments based on these contributions. This implies that every time you write a check to support the political process, the individual accepting it puts that above his credibility, his integrity, and his service to his constituents." [84]

After public controversy erupted over ethanol's adverse impacts, Sen. Tom Harkin (D-Iowa) found a unique way to persuade his fellow senators of the safety of ethanol. Harkin challenged supporters of methanol, a competing product that is also mixed with gasoline, to drink a glass of methanol (wood alcohol) if Harkin was willing to drink a glass of ethanol (grain alcohol). Harkin proceeded to drink part of a glass of ethanol at a Senate hearing. [85] At the same time, the ethanol lobby paid for advertisements warning Americans that methanol was a deadly poison that each year worldwide killed several thousand people who drank it by mistake. The ads did not mention that ethanol, after it is mixed with gasoline, is also fatal to swig.

The EPA ethanol mandate totally ignored the realities of gasoline markets and gasoline marketing in the United States. The problems with the mandate were vividly related to a Senate committee by Steve Berlin, a senior vice president with Citgo Petroleum Corporation who had been in charge of both building up and dismantling Citgo's own gasohol division. Berlin testified,

Based upon our experience, CITGO is convinced that EPA's proposed ethanol mandate has the potential for severe supply and price repercussions in the marketplace. . . . The interference with the operation of the nation's fuel distribution system that the mandate will entail virtually guarantees higher prices for gasoline and other fuels, spot shortages, and increased environmental degradation.

Ethanol has several undesirable properties as a motor fuel component, including miscibility with water and the ability to act as a solvent for petroleum residues. Because of these properties, gasolines containing ethanol cannot be transported by the national pipeline distribution system for gasoline.

Many of the market areas in which ethanol will have to be blended are not presently equipped to conduct ethanol blending. . . .

EPA's proposed mandate for blending of ethanol in gasolines in the Northeast and Mid-Atlantic is likely to result in higher prices, not only for gasolines, but also for the heating oil consumed in those regions.

Alarmingly, one company controls over 65 percent of the U.S. ethanol production capacity. With this proposal, I find it incredible that the federal government will be subsidizing basically a single large company with both tax incentives and a mandated market share without even a scintilla of regulation or oversight of that company.

Let's hold the EPA to its often stated criteria: Today's solutions to environmental problems must be "Cleaner, Cheaper and Smarter." EPA's proposed ethanol mandate fails miserably. Ethanol is no cleaner than non-renewable oxygenates; indeed, it actually poses additional adverse air emission risks. Ethanol is more expensive to RFG gasoline consumers as well as to all taxpayers; and crisis implementation is unwarranted when, as here, no crisis exists other than that which will be produced by the EPA itself. In short, this mandate is "Dirtier, Costlier, and Dumber." [86]

A federal appeals court agreed in a ruling on April 28: "The sole purpose of the RFG program is to reduce air pollution, which it does through specific performance standards for reducing . . . toxic emissions. EPA admits that the [ethanol rule] will not give additional emission reductions for VOCs or toxics . . . and has even conceded that the use of ethanol might possibly make air quality worse." [87] The court ruled that the Clinton administration had no statutory authority to forcibly subsidize ethanol producers in a law designed to clean up the air.

After the federal appeals court shot down the EPA ruling, some Republicans rushed to denounce the Clinton administration for failing to more effectively flood ethanol producers with subsidies. Sen. Charles Grassley (R-Iowa) declared, "In essence, with its ethanol policy the Clinton administration handed big oil another victory, broke a campaign promise to farmers and delivered a severe economic blow to rural America." [88]

The Clinton administration is considering a plan to "counteract" the federal court decision striking down the ethanol mandate with a new proposal to squander tens of millions of tax dollars. The Clean Air Network Online Today newsletter noted on May 18 of this year, "The USDA is considering the possibility of selling U.S.-distilled ethanol under USDA concessional sales or export credit programs, according to USDA Secretary Glickman. Glickman said the move was part of the Clinton administration's efforts to help reach 'equivalence' in ethanol use with amounts forecast before a court ruling against EPA's Renewable Oxygenate Standard. . . . Glickman said the USDA was examining the PL 480 concessional sales program . . . and export credit guarantees as a possible avenue for ethanol sales." [89] Glickman's comments imply that the Clinton administration believed it had a sacred duty to squander a certain number of tax dollars in the name of ethanol.

Ethanol Trade Barriers and the Rule of Origin Manipulation

Although ethanol has long been portrayed as a godsend for our environment, members of Congress have worked overtime to prevent foreign ethanol from improving the quality of American air. In 1980 Andreas persuaded the Carter administration to slap a prohibitive tariff on ethanol imports, primarily from Brazil. The story of the origin of the 60 cent tariff on Brazilian ethanol imports was aptly related by Michael Fumento in the National Review in 1987.

In 1980, despite the enormous subsidies it was already getting, American gasohol was being undersold by Brazilian gasohol. American gasohol producers lobbied for a tariff, but the Justice Department, the Office of the Special Trade Representative, and the Treasury Department objected on the grounds that a tariff would raise costs to consumers, provoke retaliation from Brazil, and grant too much power to ADM. On October 7, in the White House, Jimmy Carter hosted a small luncheon for campaign contributors, including Dwayne Andreas. Former ADM lobbyist Joseph Karth, who was at the meeting, told me that Andreas told Carter he would announce plans for a big new grain-alcohol plant in Iowa if the Administration would guarantee the plant's profitability by imposing the tariff. . . . In the last weeks of the election campaign Carter overruled his advisers and ordered Treasury Secretary G. William Miller to impose a tariff, by administrative means if necessary. On October 31, ADM announced the new plant, but canceled its plan after the election.[90]

Rep. Charles Vanik (D-Ohio) fought the tariff hike, noting in a memo to fellow members of Congress that it "contributes to the monopoly control of the major domestic producer (the Archer Daniels Midland Company)." While some Carter administration officials claimed to be concerned about the adverse impact of imports, a Treasury staff memo in November 1980 reported that "Treasury has been unable to verify allegations of plant closing due to imports." [91] Shortly after the tariff was put in place, former Democratic National Committee chairman Robert Strauss joined ADM's board of directors.

The ethanol defenders were not satisfied with blocking Brazilian ethanol. In 1983 Congress enacted the Caribbean Basin Initiative, granting duty-free access to many Caribbean products. The 1983 law declared that as long as at least 35 percent of a product's value originated in the Caribbean, the product qualified as a Caribbean product. Encouraged by the CBI, several companies invested tens of millions of dollars to establish plants in Jamaica and Costa Rica to convert surplus European wine into ethanol. The Customs Service ruled in 1984 that ethanol production added more than 35 percent of the value to the finished product, thus qualifying the Caribbean-produced ethanol for duty-free entry into the United States.[92]

The 35 percent rule stood until a congressional tax conference in early 1986. One member of Congress slipped in an amendment to the tax bill that raised the local value-added requirement for Caribbean ethanol from 35 percent to 70 percent, creating a different rule of origin for ethanol than for any other Caribbean product. That clause was a death sentence for Caribbean ethanol producers. The 70 percent requirement effectively mandated the use of local agricultural products for ethanol feedstock, but there were almost no surplus agricultural stocks in the Caribbean.

The new, prohibitory rule of origin was a surprise because Caribbean ethanol shipments posed no threat to American competitors: shipments never exceeded 3 percent of the U.S. ethanol supply.[93] U.S. ethanol producers still wanted to lock out foreigners. U.S. producers, led by ADM working through the Renewable Fuels Association, engineered an early-morning rule change to strangle any possible foreign competition in the crib, as Washington lawyer Jim Moody observed.[94]

The 1986 amendment gave existing Caribbean ethanol producers until 1990 to reach the 70 percent local value requirement. In 1989 Congress again changed the rule of origin for Caribbean ethanol. The new rule decreed that there would be no Caribbean feedstock requirement on the first 60 million gallons of ethanol imports, a 30 percent local feedstock requirement on the next 35 million gallons, and a 50 percent local feedstock requirement on any additional imports. That rule, which effectively prohibits a sharp increase in Caribbean exports, makes the national origin of ethanol dependent simply on the number of gallons of ethanol imported.[95]

In sum, one would be hard-pressed to find another industry as artificially sustained as the ethanol industry. The economics of ethanol are such that, for the industry to survive at all, massive trade protection, tax loopholes, contrived mandates for use, and production subsidies are vitally necessary. Only by spooking the public with bogey-men such as foreign oil sheiks, toxic air pollution, and the threatened disappearance of the American farmer can attention be deflected from the real costs of the ethanol house of cards that consumes over a billion dollars annually.

Sugar: ADM's Sweet Deal

The second federal trough that feeds ADM is the controversial sugar program, under which U.S. import quotas and

price supports provide even more artificial profit for ADM than does the ethanol boondoggle. Although ADM does not directly produce sugar, Congress and the USDA have created a price umbrella under which ADM's production of high-fructose corn syrup--a sugar syrup--has become immensely profitable.

ADM got into corn fructose production very heavily around 1974, just as sugar prices peaked on world markets. After ADM invested heavily to increase its capacity to produce high-fructose corn syrup ninefold, sugar prices plummeted from 65 cents to 8 cents per pound. Andreas told Business Week in 1976, "If it was a mistake, I'd say it was my mistake." Business Week noted, "One industry source suggests that 'Dwayne looks at this as sort of a waiting game, basing his unflappability on the predicted passage of a new sugar bill.' Such a bill is expected to provide an 'umbrella'--that is, to put supports under sugar at a level where high-fructose corn syrup will be at least reasonably profitable. Andreas contributed heavily to the 1968 and 1972 campaigns of Humphrey, Jackson and Nixon. With both parties covered, ADM may reasonably anticipate some legislative help." [96] That help came in the form of a new sugar bill in 1981.

ADM is the driving force behind the sugar lobby in this year's battle over the future of the sugar program. The American Sugar Alliance, heavily bankrolled by ADM, has spent lavishly for full-page newspaper ads showing how cheap sugar is in the United States. The ads show that sugar costs 39 cents a pound less here than in any other major country, noting that Brazilians pay 47 cents a pound and Russians pay 65 cents a pound.

However, there was a minor glitch in the ads. The Brazilian and Russian prices were based on kilograms--2.2 pounds--and thus were actually significantly lower than the U.S. price. As Al Kamen noted in the Washington Post, "The Russians pay about nine cents a pound less and the Brazilians about 17 cents less than we do" for sugar. The Post further reported that "Joseph Lockhard, a spokesman for the anti-quota Coalition to End Welfare for Big Sugar, accused the sugar alliance of knowingly letting the ad run even after the errors were pointed out." [97]

ADM and farm-state representatives loudly brag that the sugar program is a "no net cost" program. Although the sugar program mugs Americans at the grocery checkout, representatives carefully designed the program so that it leaves almost no fingerprints on the federal budget. The federal government maintains a quota system designed to keep out low-priced foreign sugar and create a perpetual artificial scarcity of sugar in the United States, which is then combined with federal price supports to help jack up sugar prices even higher.

The sugar program is a great inflationary success: sugar sold for 22 cents a pound in the United States when the world sugar price was only 4.5 cents a pound (world sugar prices are now about 10.5 cents a pound although domestic prices are still 22 cents per pound). Each 1 cent increase in the price of sugar adds between \$250 million and \$300 million to consumers' food bills. A 1988 Commerce Department study estimated that the sugar program was costing American consumers more than \$3 billion a year. [98] That works out to more than \$60 a year for a family of four.

Members of Congress defend the sugar program as protecting Americans against sharply fluctuating international sugar prices. The sugar program, like other American farm programs, provides a price floor but no price ceiling. Thus, USDA prevents prices from falling but allows prices to rise as high as the moon; price supports are always a "heads, farmers win; tails, taxpayers lose" proposition. If "price spikes" have been eliminated, it is only because domestic sugar prices have been permanently plateaued at the "spiked" level that world markets see only rarely and briefly.

ADM's angle is therefore clear. As journalist John Barnes noted in a 1987 story for the New Republic,

Since ADM can manufacture corn sweetener for between 9 and 12 cents a pound and sell it for between 18 and 19 cents a pound, they easily undercut the price of domestic refined sugar and make a killing.

Coke buys sweetener from Dwayne Andreas for around 18 cents, while peasants starve for lack of customers at six cents. In 1979 the entire corn sweetener industry produced just 1.7 million metric tons. Since the imposition of the sugar quota, industry production has soared to 5.5 million metric tons, more than 80 percent of it accounted for by ADM. [99]

While ADM's television ads hype the company's supposed passionate concern for the world's environment, its sugar policy is bad news for alligators. Current agricultural trade barriers have resulted in food being produced in many areas

that do not have a comparative advantage or natural climate for food production, such as sugar production in the United States. As a result, the farmers compensate for the lack of natural habitat by dousing the land with chemicals to artificially stimulate food production. One of the clearest examples of the harm of farm protectionism is the role of sugar producers in poisoning the Everglades. Drainage activities by the U.S. Army Corps of Engineers and others have effectively paved the way for the conversion of hundreds of thousands of acres of sensitive land to sugar cane plantations. Phosphorus from the fertilizer used by sugar growers has leached into the water of the Everglades and has helped destroy the ecosystem of the entire region.[100]

There is no reason why the United States must produce its own sugar cane. Sugar is cheaper in Canada primarily because Canada has almost no sugar growers and thus no trade restrictions or government support programs. Paying lavish subsidies to produce sugar in Florida makes as much sense as creating a federal subsidy program to grow bananas in Massachusetts. The only thing that could make American sugar cane farmers competitive would be massive global warming.

Another casualty of the sugar program is the poor people of Third World nations. Sugar imports have been cut by 80 percent since 1975, pulverizing the economies of Central America and the Philippines. The State Department estimates that reducing U.S. sugar imports costs friendly Third World governments almost a billion dollars a year.

The sugar program is corporate welfare at its most overt. The General Accounting Office estimated that 17 of the nation's largest sugar cane farmers received more than half of all the benefits provided by the sugar cane subsidies.[101] The GAO also estimated that the 28 largest Florida sugar cane producers received almost 90 percent of all the federal benefits enjoyed by Florida sugar producers.[102] The U.S. Department of Agriculture estimates that there is a total of 13,000 sugar farmers in the United States.[103] Assuming an average annual consumer cost of \$3 billion a year, since 1980 the sugar program has cost American consumers the equivalent of more than \$3 million for each American sugar producer.

To Russia with Love--and Money

The third major federal trough that feeds ADM is the various federally subsidized grain export programs. Thus, it should not be surprising to find that Dwayne Andreas just happens to have a deep and abiding interest in U.S.-Soviet affairs. In 1984 Andreas became the U.S. chairman of the U.S.-USSR Trade and Economic Council.

ADM: Supermarket to the Soviets

Andreas has been the foremost U.S. advocate of extending billions of dollars of credit to the Soviets (and now the Russians) to buy American farm products (kindly shipped to the Soviets in large part by ADM). The GAO recently reported that there is a high likelihood that taxpayers will lose billions of dollars when the Russian government defaults on those loans. Also, the flood of U.S. handouts may have actually postponed substantive reform in the Soviet Union and the Russian republic, thereby betraying the real needs of the Russian people (as opposed to the political needs of Mikhail Gorbachev).

Andreas has long plowed the field of subsidized grain sales to the Soviet Union, yet his version of history is extremely misleading. In December 1990 Andreas bragged at a House Agriculture Committee hearing,

For many years, I have devoted much effort to improving business relationships between the USSR and the USA. Now is a time when it would be clearly in our own best political and economic interest to help meet the real basic needs of the USSR. It should be noted that in 1973, we provided \$750 million of credit to the Soviets for grain. This was utilized and repaid with interest. It was profitable for both sides.[104]

Andreas chose a most unfortunate example to use to show the benefits of giving credits and subsidies to the Soviets. In 1972 the USDA paid the largest export subsidies (\$700 million) in history to the Soviets to help them corner a quarter of the American wheat crop. As GAO noted, USDA was supposed to have a reporting system for foreign crop purchases but totally failed to monitor the amount of Soviet purchases and kept subsidizing exports even after the Soviets had cornered the U.S. market. The Soviet wheat sale fiasco drove wheat prices from \$1.25 a bushel to \$4.75 a bushel and signaled the onset of a decade of world inflation. In 1973, when OPEC announced it would dramatically cut

production in order to quadruple the price of oil, OPEC spokesmen justified their decision by pointing at soaring wheat prices.

Politicians and political appointees responded to Andreas's exhortations to continue bankrolling the Soviets and, later, the Russians and other nations of the former Soviet Union. The Agriculture Department extended \$5 billion in credits to the Soviet Union and to Russia, Ukraine, and other former Soviet states between early 1991 and 1993. USDA credits to the Soviets had already been a matter of fierce dispute during congressional deliberations on the 1990 five-year farm bill. At that time Congress enacted a provision requiring that "the Commodity Credit Corporation shall not make credit guarantees available in connection with sales of agricultural commodities to any country that the Secretary determines cannot adequately service the debt associated with such sale." [105]

GAO concluded this past February, "Most, if not all, of the [Soviet] successor states are not creditworthy and all should be considered at least high risk from a credit worthiness perspective. . . . Most of the states have had severe debt burden and severe liquidity problems. . . . The states are also high risk entities because of their difficult economic and political situations. . . . GAO's analysis of historical and forecast data indicates that all of the successor states, as a group, were severely indebted in 1992 and projected to remain so through 1997." GAO went on to note that "USDA's own evaluations indicated that these states were very risky in terms of their own ability to repay [USDA loans]." [106]

In 1985 Robert Strauss, an ADM board member and former chairman of the Democratic National Committee, commented, "Dwayne Andreas just owns me." [107] Six years later, when Strauss became the U.S. ambassador to the Soviet Union, he urged the continuation of U.S. agricultural export credits to the Soviet Union long after it was undeniable that the country was bankrupt.

In December 1990 Andreas implored the House Agriculture Committee to grant still more credits: "The Soviets are in no position to complete purchases under the longer-term grains agreement unless we are competitive. Credit terms are part of the price. . . . The reduction in Soviet buying of U.S. grains has importantly reduced our grain prices and increased the expense of our farm programs. . . . Time is of the essence; anxious farmers and hungry people are asking for a decision." [108]

While Andreas hyped subsidized exports as a sure-fire method of spurring agricultural reform, other experts reached opposite conclusions. The GAO, in a sharply critical 1995 report on U.S. export subsidies, concluded,

The progress of agricultural reform in the successor states might be hindered by the provision of export credits guaranteed by the United States and other countries. Credit guarantees allow the successor states to continue to import billions of dollars of foreign grain and other food commodities. Because these commodities are generally purchased, processed, and distributed by state-owned enterprises, these structures are likely to survive longer as state monopolies than might otherwise be the case, although we were unable to quantify this effect. It is these inefficient state enterprises that successor state reformers seek to privatize or replace with alternative, nonstate structures, such as commodity exchanges and private food processors, distributors and wholesalers. In addition, credit-guarantee-assisted food imports might hinder domestic food production and the efficient processing and marketing of this food by keeping down prices offered to successor state farmers and food processors and distributors. [109]

The USDA refuses to disclose the amount of ADM exports to the Soviet Union and Russia that might have been covered by U.S. government credit guarantees on which those countries later defaulted. Sally Nunn, an assistant treasurer in the USDA's Commodity Credit Corporation, in response to a request for disclosure of the amount of ADM exports involved in the credit defaults, explained, "I have to have Secretary clearance [i.e., personal clearance from Secretary of Agriculture Dan Glickman] to give out any information on Russia." [110]

Attorney for the Defense

While Andreas was a high-profile supporter of aiding the Soviets, he was something less than a champion of reform. As a 1991 New Republic editorial noted a few days after the unsuccessful military coup, "Before the coup, ADM and Pepsi had a marked preference for making their deals with Mr. Gorbachev and ignoring the democratic forces led by Mr. Yeltsin." [111]

The day after the coup collapsed, Andreas rushed to declare that additional U.S. food aid "would hasten reform" and that the failure of the coup "will change the whole political climate of the West. Political resistance against doing business with them [the Soviets] will disappear. This coup has been a cloud over Gorbachev's head for a year, and every businessman and politician has known it. Now it has evaporated." [112]

A few days after the coup attempt, Andreas told a CNN audience, "I believe that the Republicans will now support him [Gorbachev] and that he undoubtedly will run for reelection, and I will predict that Yeltsin and Nazarbayev and the other important people will support him and he'll probably be there for a long time to come." [113]

In an August 27, 1991, speech, Andreas declared, "Now, any help they get will help the move to democracy and free markets. We can help them by inundating them with food." [114] Andreas had apparently changed his mind about the negative economics of imports since the time he sought to prevent foreign countries such as Brazil from "inundating" the U.S. market with ethanol.

In mid-September 1991 Andreas told the International Herald Tribune that without food aid, "the hard-liners, with their dog-in-the-manger attitude, will be able to use this anger to stir up trouble. This could lead to anarchy, even a climate that would permit another coup." [115]

On September 9, 1991, Andreas told the House Armed Services Committee, "By far, the most important threat to Soviet stability today is the food problem. Soviet leaders tell me, and I believe them, that they must quickly make large quantities of food conspicuously visible on the shelves of stores in their eight largest cities to stabilize prices and discourage hoarding." [116]

Andreas denounced the U.S. hesitation to approve more credits in October 1991 by challenging the authority of Congress to even have a say in his executive deal making: "The fact that the President had to go for an act of Congress is just a black mark on America's reputation as a trading nation. . . . The Cold War was very cold. It takes a long time for it to thaw. You still have in our government little isolated groups of cold warriors who sabotage anything the president is trying to do." [117]

Although Andreas had previously bragged about the successes of Soviet reforms, after the coup he changed his tune and began cozying up to the new bosses in Russia. Food Engineering magazine reported in October 1991 that Andreas said after the coup, "The outlook is better than ever before because the democratic forces are in charge. Before the coup, the communists were sabotaging reform." [118]

Still, Andreas continued to blame Gorbachev's failure on the narrow-minded and "useless" people in Washington who refused to give the Soviets [and thus ADM] even more than the billions that Gorbachev received. It was, apparently, our fault that the communist remnant was sabotaging reform. Said Andreas in January 1992, "If the West had taken a chance three years ago and allowed the Soviet Union to join the IMF and the World Bank, the communists might have changed. With that western team helping them the communists could have taken tough decisions--like making the ruble convertible. But the western economists failed to grasp what was going on. They were useless. Taking a chance with Gorbachev was low priority in Washington." [119]

Yet, while Andreas was on the hustings urging the U.S. government to provide as many financial credits as possible to underwrite ADM's and other companies' sales to the Soviets, he was reticent when asked about the use of his own money. In January 1992 an interviewer asked him directly, "Would you invest in whatever the Soviet Union is called now?" Andreas replied, "The whole country is one big train wreck." [120] While Andreas was urging the U.S. government to throw more billions down the rat hole, ADM was working to make sure that it got hard value for its exports--offering to exchange its grain for Soviet-built cargo ships. [121]

Some of Andreas's comments about Gorbachev display a level of credulity that would embarrass a six year old, if not a Central Intelligence Agency sovietologist. For example, Andreas sought to explain away some of the Soviet Union's economic problems, declaring in August 1991 that "Gorbachev and his emissaries have been saying quite recently, and in recent months, that they're experiencing a very strange phenomenon in the Soviet Union, which is hoarding." [122] Hoarding has been a predominant phenomenon in the Soviet Union since the days of the Bolshevik Revolution. A

trademark of the Soviet economy has been pervasive shortages, and the natural response to the shortages is hoarding.

Export Subsidies: ADM's "Golden Package"

Since 1985 ADM has received more than \$130 million in Export Enhancement Program subsidy bonuses to boost its exports (the export enhancement program bonuses from USDA are not as direct a subsidy as many other programs; the corporate recipients use the subsidies in part to help lower the net prices to foreign buyers). ADM has also significantly benefited from credits that the USDA has extended to foreign nations to buy exports from American companies, and taxpayers have gotten burned badly by defaults on those credits. Long a central staple of corporate welfare masquerading as humanitarian farm policy, export subsidies not only rob the taxpayer but do positive harm to the third-party recipients of congressional generosity.

The case for such programs was made quite directly by Andreas in a hearing before the Senate Agricultural Committee on May 25. But in one of the great unnoticed novelties of this year, a politician for once had the courage to publicly challenge Andreas's sleight-of-hand economics and lay bare the ruse behind the export subsidy program.

Andreas testified that day on behalf of the Coalition to Promote U.S. Agriculture Exports--that is, the committee to continue federal bankrolling of dumping U.S. crops on world markets. Andreas's written testimony had some gems of logic, including this revelation based on his decades of experience in international trade: "Without exports, America's trade deficit would be even worse." Andreas also observed,

I am here today . . . to call for action to meet the challenge of today's post-GATT global marketplace. . . . In the context of debate on the budget and the 1995 Farm Bill, we hear it said that now is the time to sharply reduce or even eliminate many of our existing policies and programs and simply allow the free market to work. Well, let me tell you, when it comes to agriculture--there is no such thing as the free market. . . .

The global marketplace is still characterized by heavily subsidized foreign competition. This is because GATT did not eliminate the use of export subsidies or other unfair trade practices. It only reduced their overall level. As a result, it has served to legitimize their continued use.

We cannot and should not expect American agriculture to compete alone against foreign government.

We should maintain funding and aggressively implement the full range of policies and programs available to us as allowed under GATT and U.S. law.

This includes direct export programs such as EEP as well as the Dairy Export Incentive Program (DEIP), and Cottonseed and Sunflower Oil Assistance Programs (COAP and SOAP).[123]

Andreas fielded a few softball questions from Sen. Jesse Helms (R-N.C.), who asked what ADM would do if Congress abolished the export subsidies. Andreas responded, "If you do away with those export subsidies like EEP, you will immediately have huge storage charges built up on grains that stay in our bins. My company stores 400 million bushels of grain. It would be a bonanza for us if you stopped the exports because our elevators would fill up. Storing grain for the government is very profitable. I do not think you can afford to do away with those export programs because the cost of the farm program will rise precipitously if you do that." But if Congress abolished farm policies that sabotage U.S. farm exports at the same time that it abolished export subsidies, no grain pileup would occur.

The most insightful exchange of the hearing took place between Sen. Rick Santorum (R-Penn.) and Andreas:

Santorum: Do your affiliates in the European Union testify in support of their export subsidies?

Andreas: My partners in the EU are 12 of the biggest farmers' cooperatives in the world, and they have, of course, their own philosophy and their own scheme of things. . . . The agricultural commodity business is so competitive that if we withdrew our export subsidies for two months, grain would back up all over this country and the government would have to pay to store it and the cost would rise. I am just stating facts.

Santorum: There is some information from the CRS in 1991 that said that 70 to 90 percent of all wheat sales that were subsidized by the EEP would have been sold anyway. . . .

Andreas: I certainly disagree. That just is not true. That is just a ridiculous statement. Who made that statement?

Santorum: The Congressional Research Service.

Andreas: It is ridiculous.[124]

Next, the conversation turned to the question of existing U.S. subsidies for exports of durum wheat to Italy and Turkey. Italian and Turkish manufacturers have taken the fire-sale wheat, made it into pasta, and exported that pasta back to the United States. Senator Santorum asked Andreas how the U.S. government should respond in a case like that. Andreas answered, "If we find that we need to subsidize the export to compete abroad, we could subsidize the pasta exports just as well as the wheat exports." [125]

Andreas, of course, must come out stridently in favor of export subsidies and control by politicians of exports or else the harm of political control of domestic markets would become too stark. After all, much of Andreas's success comes from his audience. Politicians are almost never paying for any of the programs with their own money, and as long as a program or policy creates some nice photo opportunities (pictures of P.L. 480 grain exports) or some nice rhetoric, it is a profitable program for politicians. Andreas is very successful with politicians because many politicians do not care about taxpayers' and consumers' profits and losses.

"Food for Peace" or "Food for Profit"?

ADM has long been a major beneficiary of the Food for Peace program through which surplus U.S. agricultural products are dumped on foreign nations. In 1978 ADM pleaded "no contest" to charges of price fixing and paid \$200,000 in criminal penalties in connection with the sale of grain to the Food for Peace program.[126] Even though Andreas continues to champion foreign food aid programs, the harm of those programs has long been obvious.[127] In the 1950s and 1960s massive U.S. wheat dumping in India disrupted India's agricultural market and helped bankrupt thousands of Indian farmers.[128] In 1984 George Dunlop, chief of staff of the Senate Agriculture Committee, speculated that American food aid might have been responsible for the starvation of millions of Indians.[129] U.S. officials have conceded that massive food aid to Indonesia, Pakistan, and India in the 1960s "restricted agricultural growth . . . by allowing the governments to (1) postpone essential agricultural reforms, (2) fail to give agricultural investment sufficient priority, and (3) maintain a pricing system which gave farmers an inadequate incentive to increase production." [130]

Other nations have been similarly hammered by subsidized U.S. exports.

- A report by the AID inspector general found that food aid "supported Government of Egypt policies . . . which have had a direct negative impact on domestic wheat production in Egypt." [131]
- In Haiti, food received free from the United States is widely sold illegally in markets next to the crops of local farmers, thus driving down the prices received by those farmers. A development consultant told the House Subcommittee on Foreign Operations that "farmers in Haiti are known to not even bring their crops to market the week that [P.L. 480 food] is distributed since they are unable to get a fair price while whole bags of U.S. food are being sold." [132]
- In Somalia a report made by an AID inspector general concluded, "Nearly all Title I [P.L. 480] food deliveries to Somalia in 1985 and 1986 arrived at the worst possible time, the harvest months, and none arrived at the best time, the critical hungry period. The consensus of the donor community was that the timing of the deliveries lowered farmers' prices thereby discouraging domestic production." [133]
- In Senegal the Food for Peace program in 1985 and 1986 resulted in the government's closing down the local rice markets to force the Senegalese to buy American rice that their government had been given. The Senegalese are among the few peoples in the world who prefer broken rice to whole-grain rice, as they feel it better suits their sauces and national dishes. P.L. 480 does not offer broken rice. Because P.L. 480 proceeds went straight

into the government coffers, Senegalese politicians had an incentive to prohibit the local farmers from selling their own rice in order to dump American rice on the market.[134]

- The Kansas City Times reported that in 1982 the Peruvian agriculture minister begged USDA not to send his country any more rice, fearing that it would glut the local market and drive down prices for struggling farmers. But the U.S. rice lobby turned up the heat on USDA, and the Peruvian government was told that it could either have the rice or no food at all.[135]

No matter how sanctimoniously Andreas attempts to wrap his subsidies in humanitarian garb, the evidence that those programs actually help the intended recipients is scarce indeed. The clearest beneficiary, once again, is ADM.

America's Costs vs. ADM's Profits

Prudential Securities analyst John McMillin estimated that ADM's \$746 million in profits in fiscal year 1995 (ending June 30) was derived as follows:

- corn sweeteners, 39 percent (or \$290,940,000),
- total oilseed, 25 percent,
- flour milling, 12 percent,
- biochemicals, 5 percent,
- ethanol, 4 percent (or \$29,840,000), and
- other, 15 percent.[136]

At least 43 percent of ADM's annual profits are from products heavily subsidized or protected by the U.S. government--"at least," because the substantial gain derived by ADM from various domestic crop support programs and export subsidies is virtually impossible to quantify.

ADM's lobbying and campaign contributions may have saved the federal sugar program from being abolished by Congress. Because the current sugar trade barriers and price supports cost consumers roughly \$3 billion a year, consumers paid \$10 in higher prices for each dollar of profit that ADM reaped from corn sweeteners.

ADM's lobbying and campaign contributions have certainly been the key force in creating and perpetuating federal ethanol subsidies. Because combined federal and state ethanol subsidies probably amount to more than \$1 billion, every dollar of ADM ethanol profits is costing the American public more than \$30.

ADM's finagling in Washington may have cost taxpayers and consumers more than \$40 billion since 1980, counting the cost of the sugar program (\$3 billion in higher prices each year), the ethanol program, and federal food giveaways and export subsidies. Some of those dubious programs probably would have been enacted even if Andreas had not been foisting cash on every politician in sight, but ADM deserves credit for being a decisive force in enacting and perpetuating many of the federal government's most abusive policies.

ADM's political strategy has long been based on the ideas that politicians should control prices and markets and that ADM and Andreas should control politicians. Some commentators may conclude that the ADM experience proves the need for campaign finance reform, but that would be the triumph of hope over experience. Campaign finance laws have been repeatedly revised in recent decades, yet politics does not smell any better.[137] As long as the politicians are shoveling out billions of dollars in handouts, some citizens will find a way to reward politicians for "looking after their interests."

Besides, at a time when Congress is rightfully moving toward removing millions of able-bodied citizens from welfare rolls, there is no excuse to perpetuate handouts for a company like ADM. If a company can afford endless advertisements on national television, it is safe to conclude that it does not need any help from American taxpayers.

The Supreme Court, in *Savings and Loan Association v. Topeka* (1875), stated, "To lay with one hand the power of the government on the property of the citizen and with the other to bestow it upon favored individuals to aid private enterprises and build up private fortunes is none the less a robbery because it is done under the forms of law and is called taxation." [138] Andreas apparently can buy politicians, but that does not mean that ADM has a right to shake

down American consumers and taxpayers.

Congress, in the pending farm bill and in legislation to extend the ethanol gasoline fuel tax credit, has an excellent chance to shut down the ADM gravy train. Congress's action on the ADM agenda will be an appropriate litmus test of the new Republican leadership's spine. If Congress cannot stand up to ADM, how can they be expected to stand up for American taxpayers and consumers in other, less egregious cases?

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