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Editorial

Ethanol bailout?

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The heavily subsidized ethanol industry should learn to stand on its own as a competitive renewable fuel. And now is a good time for the government to start helping the industry mature: The Agriculture Department should rethink plans to bail producers out of bad business decisions.

The USDA last week announced plans to prop up ethanol manufacturers with guaranteed $25 million loans. But the free market is perfectly able to solve the predicament in which producers find themselves. Federal assistance, by contrast, would only enable bad management.

The producers' sad tale is a simple one: Refiners blend ethanol with gasoline to stretch oil supplies. In December, Congress mandated that fuel producers use 36 billion gallons of ethanol annually by 2022. Result: The price of the primary source of ethanol, corn, rose from $4.37 a bushel in January to $7.50 a bushel in July. Fearing that prices would keep climbing, some producers bought a lot of corn at $7.50.

But since July, the price has slipped to $3.75, and those producers are left with silos full of high-priced corn.

Free market solution: Producers who bought high go out of business and sell their devalued assets to other producers who did not panic. Investors suffer the loss.

USDA solution: Use taxpayer money intended for rural development to guarantee loans to the buy-high producers so that they can stay in business and continue to make unwise decisions.

The ethanol mandate was a bad move: It distorted energy markets, led to a global spike in food prices, and put ethanol producers at risk.

But USDA's solution is the wrong path back to market discipline. And granting guaranteed loans to an industry already collecting $3.5 billion a year in federal subsidies is a needless insult to taxpayers.

The ethanol industry will survive without loan guarantees. With the worst-run companies defunct, it might even get smarter, more efficient, and, eventually, independent of taxpayer hand-holding