



The Daily Dish

Commonsense Policy Analysis

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Eakinomics: Commonsense Policy Analysis

Sometimes a good policy analysis requires advance training. Sometimes it requires sophisticated techniques that torture the truth out of the data. Sometimes, however, it simply requires the common sense to believe the evidence provided by your own two eyes.

Such is the case with the Renewable Fuels Standard (RFS) [insight](#) from AAF's Philip Rossetti. The short version of his analysis is as follows.

The RFS is a requirement to blend biofuel into gasoline. It was first imposed in 2005 as a way to (a) reduce reliance on imported oil, and (b) make gasoline cleaner. It consisted of a series of escalating targets for the amount of biofuels blended annually.

As it turns out, (a) since 2005, the horizontal drilling/hydraulic fracturing ("fracking") revolution has nearly doubled domestic oil production, making the potential energy security benefits of the RFS minute compared to those delivered by the market; (b) the process for producing biofuel is little cleaner than gasoline, and by some estimates even worse; and (c) it has turned out to be technologically implausible to hit Congress's hoped-for biofuel production targets. The RFS has failed, and the obvious solution is simply to kill off the RFS.

Good use of common sense and end of policy analysis.

But not the end of the RFS, unfortunately. Instead, the Trump Administration is engaged in an intractable conflict between the biofuels producers — especially corn-based ethanol — who are addicted to the dollars the RFS has pushed their direction and the refiners who face the costs of the biofuels and the impossibility of meeting the strict targets. Given that conflict, it becomes useful to emphasize other undesirable aspects of the RFS. As Rossetti observes, the RFS raises fuel costs (due to ethanol's lower fuel efficiency) with the result that Americans spent a total of \$76.7 billion more on fuel because of the RFS, with the annual sum ranging from \$4 to \$16 billion annually.

The RFS was an attempt to force the market to deliver a result at odds with the genuine economic incentives. That kind of project is usually costly, and it has turned out to be just that. Policies of this sort also usually provide some benefit to justify that cost, but the energy security and environmental benefits proved ephemeral. It's time to retire this well-intentioned but ultimately failed policy.