

ACTIVITY 13.1

NEWSPAPER ACCOUNTS

Directions: Read each of the fictional newspaper articles below (they are based on real newspaper reports). When you have finished reading each article, complete the appropriate sections of the data chart that follows.

Newspaper Article 1: Thousands March on Mexico City²

February 2007

Inter-Agency News Service

Recently more than 100,000 residents joined a protest march through the streets of Mexico City. What were they protesting? A new government policy? The U.S. presence in Iraq? No. They were protesting the rising price of tortillas.

Tortillas, the flat-bread made from corn, has long been a staple of the Mexican diet, especially for poorer Mexicans. When tortilla prices more than doubled in January 2007, many Mexicans took to the streets in protest. Many of them blamed one particular United States government policy for the massive price increase.

U.S. Policy in Renewable Fuels

In an attempt to address growing concerns over reliance on foreign oil and global warming, the U.S. Congress passed the Energy Policy Act of 2005. One part of the Act specified a Renewable Fuels Standard (RFS), which requires the United States to produce 7.5 billion gallons of renewable fuel by 2012. The most popular renewable fuel, by far, has been Ethanol⁸⁵ (E85). E85 is made in the United States by distilling corn into ethyl alcohol. In order to entice gasoline producers to produce more E85, the RFS included a 51 cent per gallon subsidy. The corn market has responded—the United States Department of Agriculture (USDA) estimated that 20 percent of the U.S. corn crop went to ethanol production in 2006, and that this surpassed the amount of corn exported from the United States. Many critics contend that the U. S. Congress and other policymakers failed to consider the law of unintended consequences when it adopted the RFS.

² Sources: C. Carter and H. Miller, “Hidden costs of corn-based ethanol,” *Christian Science Monitor*, May 21, 2007 (accessed at <http://www.csmonitor.com/2007/0521/p09s02-coop.html> on July 27, 2007); BBC News, “Mexicans stage tortilla protest,” *BBC News online*, February 1, 2007 (accessed at <http://news.bbc.co.uk/2/hi/americas/6319093.stm> on July 27, 2007); Institute for Agriculture and Trade Policy (December 2006), *Staying home: How ethanol will change U.S. corn exports* (accessed at <http://www.agobservatory.org/library.cfm?refid=96658> on July 27, 2007).

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U.S. Corn Farmers and the Corn Market

Until recently, more than 60 percent of the U.S. corn crop went to feed livestock. Thus, thousands of food items contain byproducts of corn (e.g., anything made from these animals or with corn syrup). Because of increased demand for corn from ethanol producers, the price of corn doubled from \$2.00 per bushel in 2005 to \$4.00 per bushel in 2006. Because corn is an important input in so many products, the prices consumers pay for these products increased.

The USDA predicts that as demand for ethanol increases, the additional corn needed for its production will be diverted from the export market.

Mexican Consumers

Corn farmers continue to respond to the incentives (i.e., subsidies) of the RFS program and to divert corn from food to fuel production. If this means less corn going to Mexican tortilla production, the impact on consumers of corn tortillas could be huge. Many observers, in Mexico and the United States, wonder whether the overall costs of the RFS (increased food prices, government subsidies that must be paid for by higher taxes) outweigh the benefits (marginally decreased dependence on oil, the use of a renewable fuel source, etc.). When the costs of government policies exceed the benefits, economists call the result a *government failure*. But residents of Mexico City aren't concerned with what to call it. They just know that the cost of tortillas grows higher each day.

Newspaper Article 2: President George W. Bush Imposes Tariffs on Imported Steel³

October 18, 2003

International Independent Press

Washington

On March 5, 2002, President Bush imposed tariffs of 8 percent to 30 percent on several types of steel that are imported into the United States. He did this in an effort to help the U.S. steel industry, claiming that the tariffs were needed to protect the industry from foreign steel that had been “dumped” in the United States at very low prices.

³ Sources: *USA Today* (March 2002), “Bush Imposes Steel Tariffs” (accessed at <http://www.usatoday.com/money/general/2002/03/05/bush-steel.htm> on July 23, 2007); “Visclosky Asks Tariffs Be Kept in Place for Long Steel Products” (July 2003; accessed at <http://www.house.gov/visclosky/archive/itc030724.html> on July 30, 2007); P. Visclosky, “Perspective: Inside Indiana Business” (accessed at <http://www.insideindianabusiness.com/authors.asp?D=127>, June 3, 2009); “Pat’s Problem,” *Investor’s Business Daily*, February 22, 1996 (accessed at <http://www.ncpa.org/pd/trade/tradeb.html> on July 30, 2007); A. Blinder, *Hard Heads, Soft Hearts* (Reading, MA: Addison-Wesley, 1987); World Trade Organization (2007), “10 Benefits of the WTO Trading System” (accessed at http://www.wto.org/english/thewto_e/whatis_e/10ben_e/10b00_e.htm on July 30, 2007).

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NEWSPAPER ACCOUNTS

Congressman Pete Visclosky represents a steel-producing district in Indiana. He is a strong supporter of the tariffs. The tariffs, he has stated, “are doing the job they were intended to do, but that job is only partly done [and] I will keep fighting to keep these safeguards in place, for the sake of good-paying steelworker jobs and the families those jobs support.”

Many observers criticized these tariffs as violating free trade agreements and as imposing hidden costs on the American consumer. Visclosky, in testimony before Congress, noted that the tariffs have led to higher prices for steel products. “Steel bar prices in June 2003 were 9.4 percent higher than in March 2002, the month in which the President announced his decision.”

Economist Alan Blinder has written about the hidden costs (e.g., higher prices, less competition, etc.) of invoking tariffs to “save jobs.” He cites several well-known studies that estimate the average, inflation-adjusted cost of using tariffs to save manufacturing jobs at \$661,500 (in 2005 dollars) per job saved—with steel jobs costing as much as \$1.18 million (in 2005 dollars) per job saved.

Such protectionism is costly because it leads to increased prices on key inputs such as steel, thereby causing the costs of production for many goods to increase (because the domestic steel used in production is more expensive). This ultimately leads to increased prices of finished goods and services, and a higher cost of living.

Manufacturing is not the only industry to seek out such protection, however. In one famous example, the World Trade Organization estimated that the \$350 billion in agricultural subsidies paid annually by consumers and governments in rich countries is enough to “fly their 41 million dairy cows first class around the world one and a half times.”

Why don’t citizens protest such costly governmental policies? Alan Blinder says the reason is that protectionism’s “allure stems not from the economics of national interest, but from the politics of special interest.” Blinder says that concentrated and highly visible gains for a small minority (for example, steel workers) can be gained through policies that impose small, almost invisible costs on the majority (i.e., consumers generally). But Blinder is very clear when he concludes that the costs (no matter how small to the individual consumer) of such protectionism are significantly greater than any benefits.

ACTIVITY 13.1, CONTINUED

Data Chart

	“Thousands March on Mexico...”	“Steel Tariffs...”
Main topic		
Policy		
Benefits of policy		
Costs of policy		

ACTIVITY 13.2

STUDENT INFORMATION SHEET FOR ELECTIONS 1 AND 3

Group 1

If Project A is approved, you will receive \$100

If Project B is approved, you will receive \$1,000

Group 2

If Project A is approved, you will receive \$100

If Project B is approved, you will receive \$1,000

Group 3

If Project A is approved, you will receive \$500

If Project B is approved, you will receive \$0

Group 4

If Project A is approved, you will receive \$500

If Project B is approved, you will receive \$0

Group 5

If Project A is approved, you will receive \$1,000

If Project B is approved, you will receive \$0

ACTIVITY 13.3

ROLE-PLAYING CARDS

You are playing the Southwestern Senator

Your state is located in the Southwest, where the leading industries are tourism and citrus products. The average age of your constituents is well above the national average because many people move to your state to retire and get away from the cold northern winters. In an attempt to win reelection, you have promised you will do every thing you can to raise the standard of living of your state's elderly retired residents.

Program 1: Dairy Subsidy

Through this program, dairy farmers who sell milk below the prices set by the Federal government will receive payments equal to the difference. While total subsidy payments will equal \$1 billion next year, dairy farms in your state expect to receive only about \$5 million. Taxes to pay for the subsidy will cost your state \$20 million dollars.

Program 2: Increased Medicare Coverage for Prescription Drugs

If this legislation passes, overall benefits to Medicare patients will increase by \$500 million. Because your state has a large elderly population, your residents will receive a total of \$40 million in these benefits. Taxes to pay for the increase will cost your state \$20 million dollars.

You are playing the Midwestern Senator

Your state is located in the Midwest, where the leading industries are dairy and agriculture. The average age of your constituents is about the national average. In an attempt to win reelection, you have promised you will do everything you can to raise the standard of living of your state's dairy-farm owners.

Program 1: Dairy Subsidy

Through this program, dairy farmers who sell milk below the prices set by the Federal government will receive payments equal to the difference. While total subsidy payments will equal \$1 billion next year, dairy farms in your state expect to receive only about \$40 million. Taxes to pay for the subsidy will cost your state \$20 million dollars.

Program 2: Increased Medicare Coverage for Prescription Drugs

If this legislation passes, overall benefits to Medicare patients will increase by \$500 million. Because your state does not have a very large elderly population, your residents will receive only \$5 million in these benefits. Taxes to pay for the increase will cost your state \$20 million.

ACTIVITY 13.3, CONTINUED

ROLE-PLAYING CARDS

You are playing the Eastern Senator

Your state is located in the East, where the leading industries are manufacturing, fishing, tourism, and some agriculture. The average age of your constituents is about the national average. In an attempt to win reelection, you have promised you will do everything you can to encourage the growth of high-tech industries in your state.

Program 1: Dairy Subsidy

Through this program dairy farmers who sell milk below the prices set by the Federal government will receive payments equal to the difference. While total subsidy payments will equal \$1 billion next year, dairy farms in your state expect to receive only about \$5 million. Taxes to pay for the subsidy will cost your state \$20 million.

Program 2: Increased Medicare Coverage for Prescription Drugs

If this legislation passes, overall benefits to Medicare patients will increase by \$500 million. Because your state does not have a very large elderly population, your residents will receive only \$5 million in these benefits. Taxes to pay for the increase will cost your state \$20 million.