Executive Memorandum

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HOW THE PROPOSED DAIRY "REFORM" WILL IMPOSE HEAVY COSTS ON AMERICANS

The House of Representatives is scheduled this week to consider H.R. 2854, the Agricultural Market Transition Act, as part of the reauthorization of the nation's farm programs. In several respects, the legislation is similar to the "Freedom to Farm" provisions included in the Balanced Budget Act, in that H.R. 2854 would lead to significant and valuable reforms of some farm programs, particularly those covering wheat, feed grains, cotton, and rice.

Unfortunately, H.R. 2854 does not include necessary reforms of the indefensible sugar, peanut, or conservation reserve programs. Worse still, the dairy provisions of H.R. 2854, as reported out of the House Agriculture Committee, not only fail to provide any reform of the dairy program, but instead would greatly expand the extent of government regulation and intervention in the U.S. dairy industry. This approach is wholly inconsistent with the fundamental premise of H.R. 2854, which is to provide for a transition away from government control over agriculture. It also departs from the approach of the Freedom to Farm legislation.

Specifically, the dairy provisions do not move toward a market-oriented economy in any manner. Nor is there even an attempt to provide changes equitable with what is being done for some other agricultural commodities. Instead, H.R. 2854 artificially raises prices for producers through unprecedented mandates, unwarranted manipulation of the market, and increased government regulation that benefits a few narrow interests at the expense of processors, consumers, and taxpayers. To read the press releases coming out of the House Agriculture Committee, one would think that real reform of the dairy program would be achieved by this legislation. But the true nature and costs of these anti-competitive proposals are not disclosed.

By law, the Congressional Budget Office (CBO) is required to estimate the direct costs of the dairy provisions on processors and manufacturers of dairy products. The CBO estimates that the extra cost of $800 million to $1.1 billion annually imposed on processors and manufacturers will be passed on to consumers. This estimate is derived from the bill's requirement that milk sold for fluid uses contain greater amounts of nonfat solids than currently required, and from a provision that would lock in higher fluid milk prices under the archaic Milk Marketing Order System.

As far as the CBO estimates go, they probably are accurate. However, because these estimates analyze only direct costs, and fail to take into account the cumulative effects of all the dairy provisions, they seriously understate the additional indirect costs that would be imposed on the dairy processing and manufacturing sector of the industry, on taxpayers, and on the consumer.

The legislation also includes a price support increase, subsidized exports, and other provisions. According to some estimates, these provisions will impose additional costs on the processing and manufacturing industry of at least $1.4 billion annually, based on current prices. The CBO did not score the direct costs of these provisions.

Most important, the CBO's estimates of the direct costs of higher mandated prices and increased regulation of the dairy industry do not take into account that a national mandate in the legislation would force the addition of nonfat solids to milk, as included in this legislation, requiring the use of an additional 400 million pounds of nonfat dry milk each year. The last time there was a short supply of nonfat dry milk, similar to what could be expected as a result of this requirement, was 1989. That episode suggests that resulting prices would be substantially higher than the current price used in the CBO analysis. Ultimately, fluid milk prices to consumers are likely to increase by roughly 50 cents per gallon. No one has estimated how such an increase would affect retail sales of milk.

The cost of this legislation would fall most heavily on the poor. U.S. Department of Agriculture (USDA) 1994 data indicate that dairy products account for over 10 percent of consumer expenditures on food products. For the poorest Americans, that percentage would be even higher, which means that the hidden milk tax being proposed by the House Agriculture Committee would hit hardest those people least able to afford it.

The CBO thus has failed adequately to estimate the cost of this mislabeled dairy "reform" bill on processors, manufacturers, and consumers. The CBO even claims that the dairy provisions will save the federal treasury almost half a billion dollars, compared with the FY 1996 budget resolution baseline, over the next seven years. This estimate, however, does not account for the legislation's increased costs to the federal government's feeding and nutrition programs. According to USDA's estimates, the cost of child nutrition and food stamp programs alone would rise by $1 billion over the FY 1997-2002 time period. Women, Infants and Children (WIC) program costs would increase by more than $130 million over the period if the present caseload were maintained.

When Congress considers H.R. 2854 this week, lawmakers need to be aware that the legislation's present dairy provisions will impose additional direct costs on dairy processors, manufacturers, and consumers which far exceed the estimates made by the CBO. Members of Congress also need to be aware that CBO has not even considered the costs of the legislation to USDA's feeding and nutrition programs. This anti-reform measure, disguised as reform, actually could impose a hidden milk tax of almost $4 billion annually on consumers, passed on in the form of a 50 cent increase in the price of every gallon of milk. On top of that, the taxpayers will take an additional hit of close to $500 million. The House Agriculture Committee's dairy legislation is costly, but it is not reform.

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