Written by Michael Tennant on December 22, 2012

Americans to Get Creamed by Higher Milk Prices Unless Congress Acts

Forget about the fiscal cliff. Brace yourself for the "provolone precipice." According to the *New York Times*, if Congress does not pass a farm bill by the end of the year, dairy prices could double in 2013.

The last farm bill, passed in 2008, expired in September, and with it went the federal government's milk price support program. Under that program, whenever the market price of milk falls below the minimum price set by Washington, the federal government buys dairy products from farmers, driving the prices of those products up. "Since milk prices have remained above that minimum price in recent years," the *Times* notes, "dairy farmers usually do better by selling their products commercially rather than to the government."

The Senate passed a farm bill in July; the House of Representatives has yet to vote on one. If none is passed by December 31, federal milk policy will revert to that of the Agricultural Act of 1949, the last permanent farm bill passed by Congress. Because that law is based on contemporaneous dairy farm production costs, which were considerably higher in real terms than they are today, "the government would be required to buy dairy products at around $40 per hundredweight — roughly twice the current market price — to drive up the price of milk to cover dairy producers' cost," says the *Times*.

What would happen then? The paper writes:

> Farmers, at first, would experience a financial windfall as they rushed to sell dairy products to the government at higher prices than those they would get on the commercial market. Then the prices customers pay at the supermarket would surge as shortages developed and fewer gallons of milk were available for consumers and for manufacturers of products like cheese and butter.

Milk prices could climb from an average of $3.65 a gallon to between $6 and $8 a gallon, the *Times* claims.

"It would be short-term euphoria followed by a long hangover that would be difficult for us to recover from," Dean Norton, president of the New York Farm Bureau, told the newspaper. "I don't think customers and food processors are going to pay double what they are paying now for dairy products."

Instead, they are likely either to reduce consumption or, in the case of food processors, to turn to foreign sources of moo juice. That would depress prices further, forcing Uncle Sam to buy up even more dairy products — at taxpayer expense, of course.

Montana State University professor of agriculture Vincent Smith told the *Times* that the 1949 law is "totally antiquated" and that the outrageous price for dairy products included in the law "was put as a poison pill to get Congress to pass a farm bill by scaring lawmakers with the prospect of higher support prices for milk and other agriculture products." Thus far, it hasn't been very successful this time around.

Smith said Agriculture Secretary Tom Vilsack "could drag his heels on the milk purchases until Congress passes a new farm bill" as one way of preventing dairy prices from skyrocketing, the *Times* reported. Vilsack isn't saying what his plans are other than following the law and buying the milk as required. He has been trying to light a fire under Congress about this issue for some time now but has had about as much success as the law's "poison pill."

"The Senate Agriculture Committee has been more aggressive, belittling the House's bargaining position since the Republican leadership never allowed the House farm bill to come to the floor this year," *Politico* observed. "But the end result has only been to harden the lines. And it's almost as if the farm negotiators want to stage their own milk crisis to rival the 'fiscal cliff' talks that have consumed Washington."

"Consumers shouldn't have to have higher milk costs because Congress can't get its work done," said Vilsack.

He is absolutely correct. But the problem is not that Congress needs once again to create a new dairy policy to supplant the 1949 version; the problem is that Congress has a dairy policy in the first place. The federal government has no constitutional authority to establish minimum (or maximum) prices for any products, nor does it have the authority to subsidize producers who aren't able to obtain the prices they would like on the open market. Furthermore, such policies in effect force taxpayers to give producers the money those producers could not obtain from them voluntarily, which is to say that they amount to legalized theft.

The solution, then, is not for Congress to pass yet another farm bill but for it to repeal the one from 1949, along with all previous ones still in force. Doing so would allow the market, rather than politicians and lobbyists, to decide what the proper prices of commodities should be, and consumers would no longer be held hostage to the whims of Washington.