Agriculture by Cynthia Parsons

The Heritage Foundation dairy policy

Heritage wants to give Congress's power to set price supports to the Secretary of Agriculture.

'Congress will probably put together another compromise dairy program, combining elements from all the six Senate dairy acts now on the table. There will probably be another dollar reduction in price supports and a modified program to reduce production. It will be another pot pourri bill like the last one."

This was the assessment of Ron Phillips, after the Senate Agriculture Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices' two-day hearings April 13-14. Phillips is the official spokesman for the Senate Committee on Agriculture, Nutrition, and Forestry chaired by Sen. Jesse Helms (R-N.C.). The purpose of the hearings was to examine the options proposed for re-shaping the diary program by removing government supports for the industry and bringing production in line with demand by preventing surpluses.

"It's really up in the air," said Phillips. "It's unrealistic to think that the price supports can continue to rise. The bottom line is that we've got to reduce government costs, and Congress will have to do it, since Block doesn't want to mess with it." Agriculture Secretary John Block has requested that the dairy industry and Congress come up with proposals before Aug. 1.

Battle lines were clearly drawn between the pro-price-support factions and the free-marketeers at the hearings. Yet each camp's proposal was the same: cut production.

The dairy industry is fighting to maintain a parity-related price support system, on the basis that if some farmers must go out of business, those that remain should be able to maintain production. The administration wants to deregulate milk production altogether, which could threaten the United States's year-round supply of fresh milk by leaving dairy farmers vulnerable to the seasonal production changes and economic swings.

We need look no further than the Heritage Foundation's *Agenda '83* for the source of the policy direction taken by the administration. The agricultural section, "Bringing a Free Market to the Farm," attacks price supports for causing "surplus" production. According to author Bruce Gardner, a professor in the Department of Agricultural and Resource Economics at the University of Maryland, this policy "appears to be a classic case of government intervention on a short-term basis that continues long enough to induce economically unjustified long-term investments."

Gardner calls the dairy farmers' fear of free market policies "paranoia." Dairy farmers must be weaned from their "psychological addiction . . . to price supports," Gardner insists, because their fear that prices will fall if supports are removed is unfounded. Farmers are still able to produce a surplus, although price supports have eroded over the past three years and the price of milk paid to the farmer has been frozen since 1980. Yet he fails to discuss the fact that farmers have had to produce more milk to make up in bulk what they lose in price, a situation that is bankrupting many.

Gardner laments that the Reagan administration has failed to follow through on its initial decision not to increase the support price for milk in the spring of 1981. The administration had decided to reduce dairy price supports by one dollar, but Congress proposed that the reduction be put in effect as a two-phase 50-cent assessment tax on every 100 pounds of milk produced. The plan, finally scheduled to go into effect April 16, would reduce the average dairy farmer's net income by over $1,000 a year, but will not reduce the price support budget, which is the basis of the Heritage Foundation complaint.

The "best approach," as proposed by Heritage, is to "give the Secretary authority to reduce the support price each six months by 50 cents per hundredweight, until supply and demand are brought into balance." Currently, only Congress can cut price supports, while the Secretary can only increase or freeze prices. The dairy industry strongly opposes giving such power to the Agriculture Department.

Desperately trying to maintain government price supports at some level of parity, the Dairy Industry and its powerful lobby are trying to satisfy the administration's demands that milk production be cut. The two largest diary co-ops jointly presented their Dairy Compliance Plan at the hearings. The plan calls for set-aside payments to encourage farmers to idle a portion of their milk production capacity, and a two-tier pricing system that provides a "disincentive" to increased production. But, while the industry does recognize that increasing exports is the only effective way to cut the surplus, this essential issue was not even addressed at the hearings.