



**Statement to the Senate Judiciary Committee  
by Grover Norquist, President of Americans for Tax Reform  
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Americans for Tax Reform (ATR) has steadfastly opposed the Northeast Dairy Compact since its inception for reasons based initially on principle and further strengthened over the course of years by mounting evidence of its disappointing performance. Therefore, we find S1157 to be a very troubling proposal, for it would give dairy compacts everlasting life, and would take a bad idea from one corner of the country and spread it virtually nationwide.

The Northeast Compact has been an expensive boondoggle not worth continuing, and this experience has ably shown that establishing even more regional compacts would be a very ill advised choice for Congress to make.

ATR's opposition to the extension of the current dairy compact and the creation of new compacts can be categorized into four basic themes. First, it's bad economics. Second, the Northeast Dairy Compact has completely failed in its mission to rescue the small farmer, as would new compacts. Third, the entire approach is so anachronistic it should be forever consigned to a museum. Finally, the Northeast Dairy Compact's persistence has demonstrated Milton Friedman's cautionary adage that "There is nothing so permanent as a temporary government program."

Dairy compact advocates have insisted all along that in order to prevent the collapse of smaller farms (especially those owned by families) and ensure an adequate supply of milk and related dairy products, a higher floor on regional dairy prices needs to be set than the one imposed by Washington every month.

The problem with this approach is that it does not correct the underlying flaw; it simply relocates it. A pricing decision imposed by bureaucrats at the local level is no better than a pricing decision imposed by bureaucrats in Washington, DC.

Whenever any government brusquely interferes with the pricing mechanism of the free market, untenable economic distortions inevitably follow. These deliberate alterations are intended to confer direct benefits to select groups and more abstract benefits to the rest, and the schemes are alleged to somehow come at no real expense on the part of the whole.

As with any attempt at command and control economics, such an unrealistic outcome is the rosier of rosy scenarios. It has certainly not been the case with dairy compacts. Indeed, it would appear that no one has benefited, and nearly everyone has borne a very real cost for keeping the program intact.

The average price per gallon of milk in the Compact has generally increased 10 to 15 cents. This artificially induced price hike is, for all intents and purposes, a tax on milk, and has worked much like any other excise tax in that it serves to reduce the maximized consumption of milk. (Think of the excise taxes slapped on alcohol and tobacco. Milk has now joined their ranks as guilty pleasures discouraged by government.)

Such a tax, of course, penalizes milk drinkers. But it also hurts milk producers. The flattened consumption levels have tended to obviate any potential profit gains dairy farmers would have otherwise expected. And consequently, many of those farmers find it impossible to continue operating and decide to quit the industry, which leads us to the aforementioned second bone of contention: The Northeast Dairy Compact hasn't prevented the implosion of small farms.

The Massachusetts Department of Food and Agriculture recently reported that while dairy farmers in that state receive an additional \$7,000 every year on average from participating in the Northeast Compact, which is in accordance with the compact boosters' design, the rate of annual dairy farm closure defied their wishes and leapt from 6% to 10% after the Compact was established.

Unfortunately, this sorry phenomenon is not exclusive to Massachusetts. It applies throughout the Compact zone. And it's largely attributable to the "less you need, more you'll get" nature of agricultural subsidies.

As a recent GAO report confirmed (GAO-01-606), the bigger and more efficient farms have been receiving the lion's share of federal agricultural assistance payments for years, and that share has been steadily increasing. In 1999, large farms, which constitute only 7 percent of all farms, received around 45 percent of the payments. Medium-sized farms, which constitute 17 percent of all farms,

took 41 percent of the payments. The remaining 14 percent was divided among the 76 percent of farms that are small—the very same farms that agricultural support programs are meant to assist.

And milk is no exception. Since the total amount of price support any one farm can claim is determined by the amount of milk it produces, larger farms automatically qualify for far more in subsidies simply because they have higher production capacities. And since the program doesn't heap its benefits on small farms, as its supporters would assert, the program doesn't help to keep small farms in business. Instead, it provides huge incentives for farms to grow larger in order to soak up more subsidies, which often entails consolidating with the smaller farms previously driven out of the industry.

Allow me to clarify: Large farms are not to be feared. They will obviously be a major component in the future of farming, which is entirely desirable. They produce a greater yield with less space and at lower prices. But our regulatory framework does not accurately reflect this ongoing development, and scarce resources are getting showered upon already efficient and thriving farms. What was designed to prop up family farms during the Great Depression is now hopelessly anachronistic in this prosperous age, the third point ATR would hasten to make.

The current outdated approach has resulted in millions upon millions of taxpayers' dollars going to meet needs that by any objective criteria simply do not need to be met by the government for the simple reason that the advance of agricultural technology as well as agricultural economics has shown that government interference is unnecessary and costly.

Clearly, a new approach is needed. The production, distribution, and sale of milk and other dairy products have entered the 21<sup>st</sup> Century. But the laws governing the dairy industry need to follow. Dairy compacts will keep us in the past. Congress should keep pace with the modernization of farming, not cling tenaciously to a bygone era.

In that same spirit, Congress should regard the issue of dairy compacts as a failed experiment that is destined for the history books. Doubtlessly, the entire matter of dairy compacts was meant to be jettisoned by now, but that brings us to ATR's fourth concern: the permanence of "temporary" government programs.

The Northeast Dairy Compact, in effect since July 1997, was supposed to be a short-term measure to help the region adjust to the aftermath of years of lower dairy price supports and the sale of government-held dairy stocks. Concurrent with the Federal Milk Marketing Order reform called for in 1999, the Compact was supposed to expire, hence the automatic sunset provision in its original legislation. The Marketing System was reformed as promised, but the Compact remains. So the Compact is living on borrowed time, and it deserves the fate ordained by the Federal Agriculture Improvement and Reform Act, i.e. oblivion.

Much of the Northeast Dairy Compact's surplus milk and dairy products have spilled out into non-compact states and applied downward pressure on prices in those states, which would explain to a great degree why many states want in on this deal. ATR believes it would be far better to simply end the entire misadventure before things get out of hand.

Moreover, ATR believes that all attempts to fix food prices are misguided and counterproductive. Not only should regional compacts get out of the business of fiddling with the price of milk, the USDA should get out of it as well. Governments at all levels should allow the marketplace to determine the price of all food, as it does so effectively and equitably with every good and service.

In closing, I would like to acknowledge the tireless efforts of grassroots organizations like Citizens Against Government Waste and the superb research of scholars such as Professor Kevin McNew of Montana State University. (Were I to present a more comprehensive list of the people exasperated by dairy compacts and doing something about it, this testimony would have filled volumes.)