

**Statement of  
John E. Frydenlund, Director  
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Center for International Food and Agriculture Policy  
Washington, D.C.  
before**

**United States Department of Agriculture (USDA) hearing to consider a proposal  
seeking to amend the Class I and Class II milk price formulas applicable to all  
Federal milk marketing orders.  
Pittsburgh, Pennsylvania  
December 14, 2006**

My name is John Frydenlund. I am the Director of the Center for International Food and Agriculture Policy at Citizens Against Government Waste(CAGW). CAGW is a nonprofit, nonpartisan organization which grew out of President Reagan's Private Sector Survey on Cost Control, better known as the Grace Commission. The organization's mission is to work for the elimination of waste, mismanagement, and inefficiency in the federal government, with the goal of creating a government that manages its programs with the same eye to innovation, productivity, and economy that is dictated by the private sector.

On behalf of CAGW's more than 1.2 million members and supporters, I appreciate this opportunity to testify before this hearing to consider a proposal seeking to amend the Class I and Class II milk price formulas applicable to all Federal milk marketing orders.

CAGW opposes this proposal, which, if adopted, would substantially increase pricing for Class I milk and for Class II butterfat, by 73 cents and 6 cents per hundredweight, respectively. CAGW believes that there is absolutely no legitimate justification for this action, which will raise costs to consumers, reduce fluid milk consumption, increase milk production and result in greater cost to taxpayers. This proposal will also worsen regional disparity in milk prices and frustrate market conditions.

USDA estimates that the proposal will result in increased retail milk prices amounting to 5.5 cents per gallon on average over the next nine years, so the increased cost to consumers of fluid milk will be \$292.6 million annually, which is nothing more than a milk tax on consumers. Furthermore, since the higher price will encourage more milk production and less consumption of fluid milk, that means that government outlays will be higher.

Although the petition for this proposal talks about needing to make this change in order to ensure that there will be enough milk for Class I (fluid) use, the real impact will be to reduce demand for fluid milk by an average of 70 million pounds per year. This

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will result in increased government purchases averaging 12 million pounds per year, costing taxpayers at least \$9.6 million annually.

The bottom line is that the markets are generating all the milk the U.S. public needs. However, this proposal will just cost the taxpayers more to encourage the dairy farmer to produce more milk which is not needed since it will cost consumers more and people will drink less milk, while at the same time making it more expensive to provide food and nutrition programs to those in need, another potential increased taxpayer cost, although what is more likely is that less of the needs of the poor will be met, particularly hurting disadvantaged families with young children.

The only thing that this proposal does accomplish is to once again demonstrate that federal dairy policy is woefully out of date. USDA's 2004 report to Congress, "Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing," pointed out that "many of the individual programs that make up U.S. dairy policy were originally designed to deal with the industry's structure in the 1930's, when most milk production (60 percent) was destined for fluid milk consumption, markets were predominantly local and many dairy enterprises were part of diversified farming operations." That report indicated that instead, now "the largest share of milk is used for manufactured dairy products, especially cheese, rather than fluid milk, markets for manufactured products are national in scope, and dairy farms are highly specialized, many of them large-scale industry-type farms."

The federal milk marketing orders are one of the most ludicrous components of federal dairy policy. In addition to establishing a formula for a minimum national price for milk, the marketing orders imposes higher "differential" prices for fluid milk based upon how far from Eau Claire, Wisconsin it is produced. Supposedly, this is designed to encourage the movement of milk from so-called "milk-surplus areas" into the so-called "milk-deficit" areas. The orders also establish different prices for milk based upon its end use. The federal milk marketing orders impose a \$1.5 billion milk tax on consumers, with the greatest impact on low-income families with young children.

In conclusion, this latest proposal is not only unnecessary and unwarranted, but demonstrates that there is a clear need for massive reform of federal dairy policy. In today's increasingly complex and uncertain environment, a forward-looking dairy policy would give producers greater access to risk management tools, such as forward contracting, farmer savings accounts and/or revenue insurance, to help manage the financial risks inherent in dairy farming. If the federal government's goal is to help individuals build a viable dairy operation that could be passed down to future generations, it would be far more useful and progressive to provide producers the tools to self-manage risk rather than rely on wasteful and counterproductive government programs.

Thank you again for this opportunity to present CAGW's position in opposition to the proposal to amend Class I and Class II milk price formulas.