

**Impact of NMPF's Price-Enhancing Dairy Policy Proposals on Federal Nutrition Programs:
*How the Proposals Would Increase Taxpayers Costs and Reduce Program Purchasing Power***

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Introduction: A Proposed Shift to Price-Increasing Federal Dairy Policies¹

Last year, the National Milk Producers Federation (NMPF) proposed sweeping changes in federal dairy policies. At the heart of the proposals is the Dairy Market Stabilization Program (DMSP). If enacted by Congress, the DMSP would replace the current Milk Income Loss Contract program (MILC), which supports dairy farmers' income through direct payments from the U.S. Treasury, with a program that would increase income to dairy farmers by driving up the prices they would receive for their milk in the marketplace. According to a March 2011 study by the Food and Agriculture Policy Research Institute (FAPRI), if the DMSP had been in place in 2009, it would have resulted in a 14 percent increase in farm milk prices that would have generated an additional \$3.4 billion in income for dairy farmers.²

The NMPF has also proposed changes to the Federal Milk Marketing Order program (FMMO), which regulates milk prices paid to dairy farmers in most milk-producing regions of the country, with the primary exception of California.³ According to NMPF, those proposed policy changes would result in an additional price increase for milk used for beverage purposes of 51 cents per hundred pounds or just over 4 cents per gallon.⁴

Purpose of the Paper and Major Findings

This inaugural paper examines some of the hidden, but de facto consequences of NMPF's proposed policy changes by analyzing and quantifying the impacts of the proposals on the federal nutrition assistance programs and their participants. Typically, economic analyses of dairy policy changes estimate the impacts on dairy farmers' incomes; milk and dairy product prices and production; dairy exports; and the costs to taxpayers associated with the federal government's payment of direct subsidies to dairy farmers and the purchase of dairy products to artificially boost milk prices. This paper takes the next logical step and analyzes how dairy product price increases caused by NMPF's proposals would affect federal spending on nutrition

¹This paper was commissioned by the International Dairy Foods Association. The analysis and production of the report represent the original work of the author, an agricultural economist, who retained complete editorial control over the report.

² Food and Agricultural Policy Research Institute. "The Economic Impact of the Dairy Market Stabilization Program on 2009 Dairy Markets," *FAPRI-MU Report #04-11*. March, 2011. ("The DMSP is only in operation in periods of low producer margins. Once the program is initiated, producers do not receive payment for any milk they deliver above their DMSP allowable marketings level. This program's operation will reduce excess milk supplies during low margin periods. Any time the DMSP reduces milk supplies below what would have happened without the program, farm-level milk prices will move higher than would have resulted without the DMSP. In addition, the program will have the ability to make cheese purchases with any funds received from the forfeiture of producer milk payments when milk is delivered above DMSP allowable levels. These cheese purchases will provide further support to milk prices.")

³ California's dairy farms account for about 10 percent of the nation's milk Class I (beverage) milk production.

⁴ The reference to NMPF's estimate of a 51cents per hundredweight Class I price increase was found in: Stephenson, Mark. "Farm Bill Dairy Proposals." Presentation at '4-State Dairy Meeting', Rochester MN. May, 2011. For a summary of the NMPF Federal Milk Marketing Order proposal, see:

http://www.futurefordairy.com/pdfs/NMPF_FFTE_FMMO_Reform_Program_Overview.pdf.

assistance programs, which rely on milk and other dairy products, and the well-being of Americans who depend on those programs.

The analysis in this report found that if the NMPF's price-enhancing proposals had been law in 2009, their costs to the federal nutrition assistance programs would have totaled nearly two-thirds of a billion dollars. In other words, higher priced milk and other dairy products mean increased costs for the federal nutrition assistance programs. According to the analysis, increases in taxpayer costs required by law to account for the higher prices would have equaled 72% of the total cost or about \$471 million. Reductions in the purchasing power of the programs resulting from higher milk and dairy product prices accounted for another \$185 million.

By considering the adverse impacts on low-income consumers, this report demonstrates that a move to support dairy farms through price enhancements rather than income subsidies imposes substantial out-of-pocket costs on the nation's taxpayers. In addition, NMPF's price-enhancing proposal would also reduce the effectiveness of taxpayers' investments in the nutrition assistance programs by eroding purchasing power and the ability to reach those most in need.

The Interconnections between Federal Dairy Policy and Nutrition Assistance Programs

Milk and other dairy products are essential components of numerous federal nutrition assistance programs. For example, more than six billion half pint servings of milk are provided by the nation's child nutrition programs each year. In fiscal year 2009, the federal government purchased more than \$360 million in dairy products for distribution through the nutrition assistance programs.⁵ In addition, milk and other dairy products remain important components of healthy diets for many of the country's 40 million SNAP participants and the more than six million participants in the Special Supplemental Nutrition Program for Women Infants and Children (WIC).⁶

When the wholesale and retail prices of milk and other dairy products, are driven up by federal dairy support programs, substantial additional costs can be imposed on federal nutrition assistance programs. Those impacts can take the following forms:

- Higher taxpayer costs for entitlement programs, such as the National School Lunch Program (NSLP), would result as automatic federal reimbursement increases are triggered by higher milk and dairy product prices;

⁵ FNS. "Group B Procurements by Program and Fiscal Year, FY 2009." August, 2011.

⁶ Food and Nutrition Service (FNS), U.S. Department of Agriculture (USDA). "WIC Program Participation and Costs." <http://www.fns.usda.gov/pd/wisummary.htm>. FNS, USDA. "Supplemental Nutrition Assistance Program Participation and Costs." <http://www.fns.usda.gov/pd/SNAPsummary.htm>

- Reductions in the purchasing power of the non-entitlement, fixed budget, nutrition assistance programs, such as the Commodity Food Distribution Programs (CFDP), would occur as USDA is forced to pay more per unit for dairy products it buys for the programs;
- The purchasing power of participants in entitlement programs, such as the Supplemental Nutrition Assistance Program (SNAP),⁷ would be eroded to the extent that automatic increases in benefits are smaller than the increases in milk and other dairy product prices that triggered the benefit increases.

Scope of the Paper

The report covers an array of nutrition assistance programs that would be most affected by NMPF's proposed changes in federal dairy policy.⁸ These programs fall into three general categories -- child nutrition programs, direct food consumption subsidies, and commodity distribution programs – and include:

- National School Lunch Program (NSLP);
- National School Breakfast Program (NSBP);
- Special Milk Program (SMP);
- Child and Adult Care Feeding Program (CACFP);
- Summer Food Service Program (SFSP);
- Commodity Supplemental Food Program (CSFP);
- Temporary Emergency Food Assistance Program (TEFAP);
- Food Distribution Program on Indian Reservations (FDPIR);
- Supplemental Nutrition Assistance Program (SNAP); and
- Special Supplemental Nutrition Program for Women Infants and Children (WIC).

Methodologies and Sources of Data

Data on the extent to which milk and dairy product prices would be enhanced by the DMSP proposal were obtained from the FAPRI study.⁹ FAPRI's report was the only available analysis

⁷ SNAP was formerly known as the Food Stamp Program.

⁸ In mid-2011, Congressman Colin Peterson of Minnesota circulated a draft dairy policy proposal that incorporated aspects of the NMPF proposal, including a DMSP. "The Peterson draft," as the proposal has been called, would likely have a somewhat lower price-enhancement impact than the NMPF proposal since less of the money collected by USDA from farmers who over-produce would be used to take cheese off the market. Since milk and dairy product price impacts were not included in the Congressional Budget Office's 'scoring' of the proposal, its impacts on the federal nutrition assistance programs were not analyzed in this paper.

⁹ The Food and Agricultural Policy Research Institute (FAPRI) was established in 1984 by a grant from the U.S. Congress. It is a globally recognized research program centered at Iowa State University and the University of Missouri. FAPRI uses comprehensive data and sophisticated computer modeling systems for international and U.S. grains, oilseeds, livestock and dairy sectors to analyze the complex economic interrelationships of the food and agriculture industry. The Institute routinely consults with U.S. Department of Agriculture economists, and experts at other universities, extension services, and industry. <http://www.fapri.iastate.edu/about.aspx>

of the DMSP that provided all the price impact estimates needed to conduct this study.¹⁰ NMPF's own estimate of the extent to which the FMMO proposal would increase the Class I milk price was used to determine the impact of that proposal on beverage milk prices.¹¹

As discussed in the previous subsection, price-enhancing dairy support programs can affect federal nutrition assistance programs and their beneficiaries in a number of important and expensive ways, including: a) increasing the direct costs to taxpayers of the programs; b) reducing the amount of food that the government can supply to the programs; c) decreasing the amount of food that program participants can purchase in the marketplace with their program benefits; d) eliminating qualified participants from fixed-budget programs due to increases in the cost per participant; and e) reducing the purchasing power of the child nutrition program meal providers.

1. Direct Costs of the Proposed Dairy Policies to Taxpayers

For entitlements, such as the child nutrition programs and SNAP, reimbursements to meal providers and benefit levels for low-income consumers are adjusted annually to reflect changes in the cost of food. These adjustments are triggered when food price increases are captured by the Consumer Price Index for All Urban Consumers (CPI-U). If all other food prices are held constant, any increase in milk and other dairy product prices captured by the Index will result in an increase in nutrition assistance program costs per meal and per participant for the federal government.

For the largest entitlement program, SNAP, benefit levels for participants are adjusted yearly based on changes in the CPI-U for food at home. If, for example, the price index for beverage milk products rose by 10% during the year and all other food prices remained constant, then the benefit levels paid by the federal government to program participants would increase by 10%, times the relative weight of those products in the CPI-U for food at home.

Annual adjustments to reimbursement rates for meal providers in the child nutrition programs are governed by the CPI-U for food away from home. Since that index does not break consumer spending down by type of food, for the purposes of this study, the CPI-U index for beverage milk products was used as a proxy for the impact of milk price increases on the reimbursement rates.¹²

¹⁰ FAPRI, March 2011. FAPRI chose 2009 as a classic example of the impacts of the proposed DMSP. "This is not the only historical period that would have had the DMSP in operation over the last decade but it is certainly the worst economic period both in terms of the length and depth of the downturn."

¹¹ Stephenson, Mark. May, 2011.

¹² This food at home index serves as a solid proxy for the food away from home index in this study since the correlation coefficient for the 1984 through 2010 annual time series of the food at home index and the food away from home index is .997.

For the SMP, reimbursement rate increases paid to meal providers as a result of beverage milk price increases are determined by changes in the levels of the U.S. Bureau of Labor Statistics' Producer Price Index for milk under the Processed Foods and Feeds Category.

The mandatory entitlement increases in federal government costs from the higher milk prices were estimated by multiplying the percent increase in reimbursement rates or benefit levels by the actual reimbursements rates or benefit levels that were paid in 2009. With the exception of the SMP, the increases in reimbursement rates and benefit levels were obtained by multiplying the percentage of the CPI-U food at home series, comprised by each of the dairy products considered in this study that appear in the CPI, by the percent increase in the retail price of the dairy product.¹³

Although WIC is not an entitlement, price increases that occur because of federal dairy policies ensure that the cost of milk and cheese to the program will also increase. WIC participants are given authorization to purchase a set amount of dairy products per month that is paid for by the program regardless of the prices of those products. Higher milk and cheese prices, resulting from the NMPF proposal, therefore, would increase taxpayer costs accordingly.¹⁴

This study used USDA's analysis of the costs of milk and cheese for the program for FY 2009, after adjusting for actual changes in prices since the time of the analysis, to determine the impact of the NMPF proposals on the purchasing power of WIC participants. In this study, the increase in cost to the program equals the estimated cost of each of the WIC-dairy products (i.e., milk and cheese) in FY 2009 multiplied by the estimated percent increase in the price of each dairy product due to the NMPF proposal.¹⁵

2. Reductions in Food Commodities Provided by the Federal Government

USDA's commodity purchasing operations, which distribute manufactured dairy products to the TEFAP, CSFP, FDPIR, NSLP, and CACFP, for example, have fixed annual budgets. If dairy product prices increased as a result of a dairy farm support program, USDA would simply have to purchase and distribute lower amounts of those commodities. In this study, the impact of the NMPF proposals is obtained for each dairy product by multiplying USDA's actual commodity distribution program spending in 2009 by the estimated percent increase in the wholesale price of the dairy product.

¹³ Beverage milk, cheese and butter comprise 3.6%, 3.4% and 2.0% of the value of the CPI-U food at home series respectively.

¹⁴ In the event that federal policy makers decided to hold the line on the budget and not absorb the additional costs to the WIC Program from higher milk and cheese prices, the higher product prices would have resulted in a lack of access to the WIC program for nearly 180,000 eligible low-income mothers and children in 2009.

¹⁵ FNS, USDA. "Revisions in the WIC Food Packages – Interim Rule: Additional data and tables." December, 2007. <http://www.fns.usda.gov/wic/regspublished/WICfoodpkg-additionaldataforRIA.pdf>

3. Reductions in the Purchasing Power of Program Participants

SNAP provides funding directly to program participants to spend in the marketplace on a limited range of food products. Although the SNAP program has a built-in annual food price inflation adjustment mechanism, there is no guarantee that the increases in benefits dictated by the CPI-U will sufficiently cover the entire impact of an increase in dairy prices on program participants' purchasing power.

This study examined and quantified the difference between those annual inflation adjustments (i.e., increases in cost to taxpayers) and the increase in retail prices for beverage milk, cheese and butter that would result from the NMPF proposals. The difference between the two impacts represents the net change in purchasing power for program participants. For SNAP, the increase in spending for dairy products caused by the NMPF's proposals was determined by multiplying the percent increase in the retail price of each dairy product (i.e., milk, cheese and butter) caused by the NMPF proposals by actual dairy product consumption for low-income households. Consumption levels were derived from the BLS' 2009 Consumer Expenditure Survey.¹⁶

4. Reductions in the Purchasing Power of the Child Nutrition Programs

As in the case of SNAP, inflation adjustment mechanisms for the child nutrition programs may be insufficient to account for the entire price-enhancing inflationary impact of the NMPF proposals. To determine the net effect of the proposals on the net purchasing power of child nutrition program meal providers, the effect of the NMPF proposals on spending by meal providers for dairy products had to be determined. Data were obtained from FNS and the International Dairy Foods Association (IDFA) on the amount and cost of milk used in the programs, the reimbursement rates for each of the meal types (i.e., breakfast, lunch, suppers and supplemental or snacks) and the percentage of each of the meal types that were "free", "reduced price", and "paid" meals.¹⁷ These data were used to calculate the amount of program milk costs subsidized by the federal government (as opposed to payments made by program participants). To determine the impacts of the NMPF proposals on milk spending by meal providers, the subsidized portions of the meals' costs were multiplied by the percent increase in the price of milk.¹⁸

¹⁶ U.S. BLS. "Consumer Expenditure Survey," *Table 2. Income before taxes: Average annual expenditures and characteristics*. 2009. <http://www.bls.gov/cex/#tables>

¹⁷ USDA, FNS, Program Reports, Analysis and Monitoring Branch. "Program Information Report (Keydata): U.S. Summary FY 2009-FY 2010." June, 2010. http://www.fns.usda.gov/fns/key_data/june-2010.pdf; USDA, FNS, Program Reports, Analysis and Monitoring Branch. Special request for data from National Databank Version 8.2 Public Use. August 2011; IDFA. Spreadsheet: "Milk Consumed Through Federal Schools Program; 1990-2009."

¹⁸ The calculations for the child care at home component of the CACFP differed from the description in this subsection, which applied to child and adult care centers. Home facilities are subject to a two-tiered reimbursement schedule, in contrast to the three-tiered schedules (i.e., free, reduced-price and paid) of other child nutrition programs.

Findings of the Analysis

1. Price Increases Resulting from the Proposed DMSP

The results of the FAPRI analysis of the impacts of NMPF's proposed DMSP, on prices of milk and dairy products, are reported in Table 1 below. For the purposes of this study, the impact on the prices of Class I (i.e., beverage) milk and cheese are primary since they are the two dairy products that are most-heavily consumer through the nutrition assistance programs. As Table 1 demonstrates, the price increases that would have occurred had the DMSP proposal been in force in 2009 are substantial, ranging from 19 percent for the farm price of milk to 23 percent for the wholesale price of cheese.

Table 1. Effects on 2009 Milk and Dairy Product Prices of NMPF's Proposed DMSP

	Baseline Price	Price with DMSP	Price Increase	Percent Price Increase
Class I Milk¹⁹ (\$ per 100 lbs)	13.99	16.67	2.61	18.8
All-Milk (\$ per 100 lbs)	12.83	14.67	1.84	14.3
Cheese (wholesale, \$ per lb.)	1.30	1.60	.30	23.1
Butter (wholesale, \$ per lb.)	1.24	1.34	.10	8.1
Nonfat Dry Milk (wholesale, \$ per lb.)	.99	1.02	.03	3.0

Source: Food and Agricultural Policy Research Institute. "The Economic Impact of the Dairy Market Stabilization Program on 2009 Dairy Markets," FAPRI-MU Report #04-11. March, 2011.

2. A Focus on Beverage Milk Prices and Consumption

Table 2 below focuses strictly on the impact of NMPF's proposals on the price of beverage milk. In the table, the combined impacts of NMPF's proposed change of FMMO pricing rules and its proposed DMSP are reported. The wholesale and retail prices for beverage milk, which increased by 9 and 10 percent respectively, play a critical role in this study and account for the bulk of the cost increases that would have been imposed on federal nutrition programs had those proposals

¹⁹ The Class I baseline price and price increase due to the DMSP reflect a Class I-production-based weighted average of the results of the FAPRI study for the FMMOs and California.

been in force in 2009. These increases should represent conservative estimates since they assume that no percentage markups are taken by milk processors, at the wholesale level, or retailers. In other words, the \$3.14 increase in the price received by farmers is assumed to simply pass through the marketing channel without any additional increases.

Table 2. Impact on Beverage Milk Prices of NMPF’s DMSP and FMMO Proposals

	Increase	Percent Increase
DMSP Farm Price	2.63	18.7
FMMO Farm Price	0.51	3.6
Combined Farm Price	3.14	22.4
Wholesale Price	3.14	10.2
Retail Price	3.14	8.8

Table 3 below presents a summary of the consumption of milk associated with the federal nutrition assistance programs. Findings reported in Table 3 were generated mostly from sources referenced previously in this study. Estimates for the school meals programs were based largely on consumption data from IDFA and data from FNS on SFSP milk servings’ requirements and numbers of meals served. For CACFP, estimates were based on the number of meals served and required servings of milk for each of the four meal types.²⁰ SNAP estimates were derived from the BLS’ *Consumer Expenditure Survey* and the number of SNAP participants in FNS’ annual summary. Consumption of milk by WIC participants was calculated from data provided by FNS in its cost analysis for the interim rule governing WIC food packages.

The entries in Tables 2 and 3 offer an indication of the magnitude of the consumption costs associated with the higher prices for beverage milk generated by the NMPF proposals. A price

²⁰For CACFP data see: http://www.fns.usda.gov/cnd/care/ProgramBasics/Meals/Meal_Patterns.htm . Other CACFP data were drawn from FNS’ National Data Bank Version 8.2, obtained from requested reports and the FNS web site (http://www.fns.usda.gov/fns/key_data/april-2011.pdf) and <http://www.cde.ca.gov/ls/nu/rs/rates0809.asp>

increase of \$3.14 per 100 pounds is the equivalent of 27 cents a gallon. For the 1.237 billion gallons of fluid milk associated with the nutrition assistance programs – that’s 20 percent of total U.S. milk consumption in 2009 -- the increase in cost would add up to \$335 million.

Table 3. Estimated Consumption of Milk Associated with Nutrition Assistance Programs, 2009

	Gallons of Milk Consumed (Millions)
NSLP, NSBP, SFSP and SMP	251
CACFP	104
SNAP	619
WIC²¹	264
Total 4 Program Areas	1,235

3. The Impact of Cheese Price Increases on the Nutrition Assistance Programs

When cheese consumption by SNAP participants is added to the picture, the impact of the NMPF proposals is greatly magnified. The 30-cents-per-pound increase in the wholesale price of cheese translates into a 6.2 percent increase in the retail price of cheese.²² Assuming a per capita consumption of about 20 pounds for SNAP participants and total consumption for those

²¹ According to a 2008 survey of WIC participants by FNS, 23% of them also received food stamps. For 2009, that would represent only 4 percent of food stamp recipients. While there is likely to be some double-counting of milk consumption across both programs, the potential for WIC benefits to supplement rather than replace milk consumption financed by food stamps would appear to be strong given the mission of the WIC program, its target population, and its nutrition education program. As a result, no attempt was made in this paper to adjust for potential double counting. (USDA, FNS, Special Nutrition Programs. “WIC Participant Characteristics, 2008,” *Report No. WIC-08-PC*. January 2010.)

²² Unfortunately, the federal government tracks retail prices of only cheddar and American cheeses. Wholesale prices are available for all major cheeses, including Swiss and mozzarella, which command higher prices than cheddar and American. For this analysis, a 2009 retail cheese price baseline was estimated by adding to the volume-weighted average of cheddar and American cheese retail prices the difference between the cheddar and American cheese weighted average wholesale price (\$1.57) and the four-cheese weighted average wholesale price (\$1.90). The resulting four-cheese retail price baseline (\$4.82) is \$.33 higher, but produces a lower impact on the nutrition assistance programs than the observed 2009 weighted average of cheddar and American retail prices (\$4.59).

individuals of roughly 660 million pounds, the NMPF proposals would have raised the cost of food for SNAP participants by \$198 million in 2009.²³ Increased market prices for cheese faced by the WIC Program would have added another \$24 million to the mounting cost of the NMPF proposals had they been in force in 2009. In addition, cheese purchases by USDA for the commodity distribution programs would have faced \$73 million in higher costs in 2009. The total impact of higher cheese prices in 2009 resulting from the NMPF proposals would have been \$295 million.

Some portion of the cost increase to SNAP participants would have been incorporated into the following year's SNAP benefit calculation. Similarly, the food distribution programs, which are not entitlements, would have to absorb the reduction in purchasing power, reducing the positive impact of its annual budget.²⁴

4. Impacts of the NMPF Proposals on Specific Nutrition Assistance Programs and Total Impacts

Table 4 below reports the dollar impacts of the NMPF proposals on each of the categories of federal nutrition assistance programs covered by this study. Based on the methodology outlined in the introductory section of this paper, three aspects of those impacts are reported:

- the immediate cost-increasing impact in 2009 of the price-enhancements generated by the proposals;
- the costs to taxpayers in the following year as a result of mandatory inflation adjustments for those nutrition assistance programs that are entitlements; and
- the reductions in purchasing power of the commodity distribution programs and for entitlement-program participants due to the failure of inflation adjustment mechanisms to account for the full cost increases.

²³ BLS. "Consumer Expenditure Survey." 2009. Consumption of non-beverage dairy products by low-income households was determined to be 66% of the average U.S. household. Per capita consumption of 29.9 pounds in 2009 was reduced by one-third to provide an estimate of cheese consumption for the average SNAP participant. (University of Wisconsin. "Understanding Dairy Markets." <http://future.aae.wisc.edu/tab/sales.html#58>.)

²⁴ See Table 4 below for additional implications of the price increases on specific nutrition assistance programs.

Table 4. Costs of NMPF Proposals by Federal Nutrition Assistance Programs

	Increase in Taxpayer Spending	Erosion of Purchasing Power	TOTAL Increased Costs of Milk and Dairy Products
	(Millions of \$)		
School Meals and Summer Food Service Programs	65	11	76
Child and Adult Care Feeding Program	12	16	28
Special Supplemental Nutrition Program for Women Infants and Children Program (WIC)	92	0	92
Supplemental Nutrition Assistance Program (formerly Food Stamps)	302	80	382
Commodity Distribution Programs	0	77	77
Total, All Programs	471	185	656

Entries in far-right-hand column of Table 4 are equal to the entries in the second column minus the entries in the third column. The entries in the second column represent the total cost burden on the society that would have been imposed by the NMPF proposals had they been in place in 2009.

The following key findings can be drawn from the results reported in Table 4:

- The hidden costs of the NMPF proposals on the federal nutrition assistance programs and their beneficiaries are substantial, totaling nearly two-thirds of a billion dollars had the proposals been in effect in 2009.²⁵

²⁵ The total increased costs for all programs in Table 4 exceeds the sum of the costs for beverage milk and cheese presented on the previous page due to the inclusion in Table 4 of the increased cost of butter for SNAP participants and UHT milk and nonfat dry milk powder for the commodity distribution programs as well as rounding errors.

- The NMPF proposals can come at a steep cost to taxpayers as illustrated by an estimated increase in federal spending of nearly a half billion dollars that would have been triggered by the proposals had they been in place in 2009.
- The \$471 million price to be paid by taxpayers is not the only cost to the nutrition assistance programs that would be imposed by the NMPF proposals. An additional \$185 million in lost purchasing power, as a result of unreimbursed price increases, would also have been imposed on the programs and their participants.
- Entitlement programs (i.e., SNAP and child nutrition) would have lost significant purchasing power (\$106 million) because their inflation adjustment mechanisms would not have captured the full effect of the price increases.

Summary and Conclusions

This paper found that government policies that drive up milk prices paid to dairy operations can have substantial negative impacts on federal spending, the effectiveness of federal nutrition assistance programs, and the food purchasing power of participants in those programs. The study analyzed proposals by the National Milk Producers Federation to increase milk prices through a Dairy Market Stabilization Program, which would shift federal support for dairy farms from direct payments to price enhancement mechanisms, and changes to the Federal Milk Marketing Orders. Had the program been in place in 2009, the total cost to taxpayers, the programs and their beneficiaries, would have exceeded \$650 million.

As a prospective 2012 farm bill looms and Congress grapples with formidable budget issues, the hidden costs revealed in this report can help inform the debate about the NMPF proposals, especially at a time when Americans are falling out of the middle class at a rapid rate and enrollment in nutrition assistance programs has been rising. For those who would argue that the country should adopt the price-enhancement model embodied in the NMPF proposals, the findings of this study raise the inevitable question, “but at what cost?”