United States
Department of
Agriculture

Agricultural
Economic
Report
Number 705

An Economic Research Service Report

Dairy

Background for 1995 Farm Legislation

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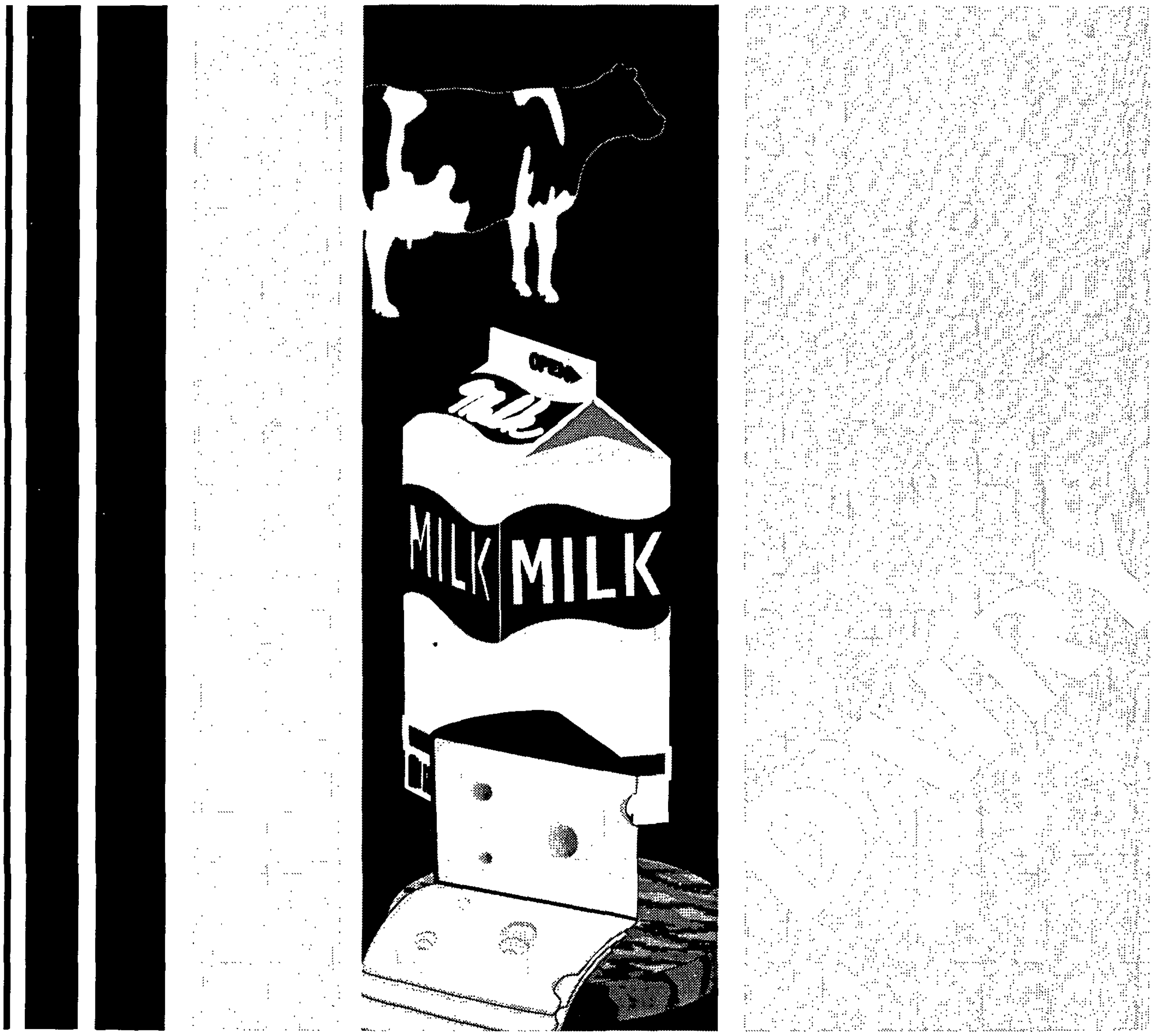

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Dairy: Background for 1995 Farm Legislation. By Don P. Blayney, James J. Miller, and Richard P. Stillman. Commercial Agriculture Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 705.

Abstract

The U.S. dairy industry is heavily influenced by public dairy policies and programs. The 1980's were marked by attempts to reduce government program costs by adjusting dairy price supports and initiating voluntary supply control measures. So far the same trends have continued into the 1990's. General issues of concern for the industry include: structural change in milk production, surplus production, international trade issues, and price policies. A key issue for legislators in 1995 will be price volatility in milk and dairy product markets.

Keywords: dairy, domestic use, industry structure, international dairy trade, milk marketing orders, milk pricing, price support, production costs and returns, program effects.

Foreword

Congress will soon consider legislation to replace the expiring Food, Agriculture, Conservation, and Trade Act of 1990. In preparation for these deliberations, the U.S. Department of Agriculture and other groups are studying previous legislation to see what lessons can be learned that are applicable to the 1990's and beyond. This report updates ***Dairy: Background for 1990 Farm Legislation*** (AGES 9020), by Richard F. Fallert, Don P. Blayney, and James J. Miller. It is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize the experiences with various farm programs and the key characteristics of the commodities and the industries that produce them. For more information, see Additional Readings at the end of the text.

Acknowledgment

The authors would like to thank Sara D. Short, Richard F. Fallert, and Steven A. Neff for their contributions to this report. They each provided sections which have been incorporated into the report. We would also like to thank Jack Harrison for editing the report and Wynnice P. Napper for preparing the camera copy.

Washington, DC 20005-4788 April 1995

Contents

Summary

The increased variability in U.S. dairy prices and obligations resulting from new international trade agreements will be major points of concern during the 1995 farm bill debate.

The likely parameters of that debate are outlined in this report, which describes dairy policy options, the history of dairy policy, and the current state of the U.S. dairy sector.

In addition to trade concerns, other important dairy-policy issues this year include the price support system, possible policy alternatives, desires to cut the Federal budget, and environmental concerns, including water quality, air quality, animal waste management, and water availability (an issue in areas where production agriculture is competing more and more with urban and environmental water "customers.")

Government policy has traditionally played a major role in the pricing and marketing of milk and dairy products in the United States. Federal regulations prevail in most areas, with California's State dairy program being one prominent exception.

The major Federal dairy policies date from the 1930's and 1940's, but have been modified significantly since then as the structure of the dairy sector has evolved. The two principal parts of Federal dairy policy are the price support and milk marketing order programs, both of which have been under increasing pressure to change. Import quotas on dairy products have been used with the price support program.

The 1980's and the first few years of the 1990's were marked by attempts to reduce government dairy program costs by adjusting price supports and initiating voluntary supply control measures. Government spending limits are expected to be an important factor in the debates over dairy policy and other farm legislation this year.

Recent years have seen a revival of State regulations aimed at improving dairy farmers' income. However, most of the new regulations have not survived court tests.

Cash receipts from milk marketings totaled $19.3 billion in 1993, ranking milk third in value among all U.S. agricultural commodities. Consumers spend about 13 percent of their food budget on milk and milk products. Milk is produced and processed in every State, but more than half of total production in 1993 came from five States: Wisconsin, California, New York, Pennsylvania, and Minnesota.

Farm numbers and cow numbers continue to decline while output rises. Milk production is growing in sections of the country outside the traditional dairy areas of the upper Midwest and the Northeast. California recently surpassed Wisconsin as the top milk-producing State.

Various measures suggest that the financial well-being of dairy farmers has substantially improved over the last decade. Capital expenditure decisions affecting production response are essentially based on long-term expectations.

U.S. commercial disappearance of milk (the total demands of all commercial buyers) has grown by about 1.5 percent per year since 1980. Imports during the 1988-92 period averaged less than 2 percent of domestic disappearance. U.S. exports averaged about 2 percent of production during the same period. Trade may increase as barriers to international commerce are removed.

A wide array of firms is engaged in processing, manufacturing, and distributing milk and milk products in this country. Highly developed commercial fluid and manufactured dairy products industries have been built up over recent decades, each characterized by fewer plants serving larger markets than previously. Dairy cooperatives play an important role in the dairy sector.

Also described in this publication are many of the fundamental relationships and the history underlying milk production and marketing in the United States. These factors comprise part of the complex set of economic, political, and social forces affecting the industry today.