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REGIONAL CONFLICTS IN DAIRY POLICY

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When supply consistently outruns effective demand there is a natural urge to find someone or something to blame for the problem. The recent dairy surplus situation in the United States is a good example.

While at first most of the dairy industry wanted to think that the need for the Commodity Credit Corporation (CCC) to buy as much as seven percent of total marketings in 1980 was a temporary phenomenon, the steady need for the government to purchase ten percent or more of the total in each of the last three years removed all doubt. The problem is not temporary but real. The substantive questions are how to reduce supplies equitably and how to maintain a balance between supply and demand.

In this kind of setting, regionalism and local partisanship is most likely to surface. Recent changes in milk production for each of the states, additions to herds, and interregional price and cost data provide the basis for lots of "arguments using facts" to support a particular point of view.

For example in March 1983, *Hoard's Dairyman* published a series of comments from dairymen in response to a proposal developed by farm leaders in Wisconsin and Minnesota and introduced as a bill by a group of Wisconsin Congressmen. The proposal was called the Voluntary Incentive Plan (VIP) and gave dairymen an incentive payment of \$10 for every 100 pounds of milk they cut back output below their 1982 production base. The responses were mixed and regionalism showed.

"I think the states that are creating the surplus should do the cutting or pay the 50 cents the government wants. When I start creating a surplus at my plant, I will cut production at that time." (Alabama)

"This plan does not penalize the person that has caused the problem. Investors came on strong after the support price was raised under Carter, flooding the market. Drop the support \$3 to \$4 and get them back out." (California)

"I give two reasons for not cutting back. I understand that California and Wisconsin are the states with overproduction, not

Virginia. Our boys are at the age to take interest in dairying — farms are too expensive to buy so we would like to expand.” (Virginia)

“I don’t believe that the government should pay for not producing milk because the farmers that are in trouble are the ones that spent too much on sealed silos and milking parlors so they could have it easier. I believe they should let some of those big farms go bad. I blame the whole problem on the loan companies — kept giving them money three years ago for everything.” (Wisconsin)

These responses show an inherent tendency to find someone else to blame for problems which extend across an industry. Dairymen want

Table 1.
APRIL-JUNE MILK PRODUCTION BY STATES
United States, 1981 and 1983

State	Milk production		1983 as percent of 1981
	1981	1983	
	Million pounds		
1. Wisconsin	6246	6239	100
2. California	3625	3651	101
3. New York	2988	3089	103
4. Minnesota	2843	3009	106
5. Pennsylvania	2331	2443	105
6. Michigan	1301	1396	107
7. Ohio	1179	1266	107
8. Iowa	1106	1136	103
9. Texas	957	1052	110
10. Washington	780	886	113
Other 40 states	11904	12286	103
United States	35260	36453	103

Source: SRS, USDA, *Milk Production*, July 1983

Table 2.
PERCENT OF MILK COWS BY HERD SIZE
Major Dairy States, 1982

States	Number of cows	Herd Size			
		Under 30	30-49	50-99	100 or more
	thousands	percent of total			
Wisconsin	1827	14	39	37	10
California	943	—	1	3	96
New York	933	7	22	44	27
Minnesota	890	18	41	32	9
Pennsylvania	733	14	33	35	18
Michigan	403	10	22	37	31
Ohio	399	27	24	35	14
Iowa	388	18	33	41	8
Texas	335	4	2	22	72
Washington	217	3	8	19	70
United States	11068	12	22	32	34

Table 3.
ESTIMATES OF MILK PRODUCTION COSTS AND RETURNS PER CWT.
Regions of the United States, 1981

Region	Cost and returns items			
	Returns from milk, cull cows	Direct Costs	Ownership Costs	Hourly returns to operator's labor and management
		Dollars per cwt.		
Upper Midwest	\$14.88	\$ 8.28	\$4.17	\$2.43
Northeast	15.28	9.27	3.70	2.31
Pacific	14.40	9.88	2.46	2.06
Southern Plains	15.87	11.16	2.98	1.73
Corn Belt	14.69	9.57	4.36	.76
Appalachian	15.19	11.02	3.47	.70
United States average	\$14.97	9.28	3.72	1.97

Source: ERS, USDA, Cost and Returns of Producing Milk in the United States 1979, 1980, and 1981

other individuals or groups to accept lower prices, reduce production or take whatever change in behavior is mandated. No region of the country is immune from such behavior.

Roger Barber, the Commissioner of Agriculture in New York State, argued this spring for a proposal, soon termed the "Barber Plan", which would have frozen Class I milk prices while trimming the manufacturing milk price by \$1.70 per hundredweight. Not surprisingly this was greeted with favor in the Southeast and loudly opposed in the Midwest. The potential cost of this proposal to dairymen in the two regions was very different because of regional differences in Class I and Class II sales.

One of the reasons why dairy policy generates both national and regional interest is because milk is produced in every state. The dairy industry has both economic and political importance throughout the country, even though two-thirds of the milk supply is produced in the 10 largest dairy states. And while dairy systems and cropping patterns are quite different in Southern California and Northern Wisconsin, additions to supply have been a common phenomenon.

The latest available evidence about production increases for the spring quarter of 1983 compared with two years earlier are presented in Table 1. Production increases over the two years have been surprisingly uniform throughout the country. One reason to present these data is to show that no region is immune from some responsibility for what is so commonly described as the "surplus problem."

The structural differences within the dairy industry are suggested by the proportion of all dairy cows in herds of different sizes in the major dairy states (Table 2). In the Pacific States and Southwest most of the milk is produced on farms with 100 cows or more. In the Lake

States and Corn Belt more than half of the cows are located in herds with less than 50 cows. This presents distinctly different cost structures, problems, and policy solutions.

One of the important challenges in working with dairy industry leaders in this environment is to help create understanding of the diversity that exists and how differently individuals will respond to any alternatives that are proposed. Solutions that hurt no one do not exist. There are dairymen with cash flow problems in every state and region for a wide range of reasons, not all related to the current price structure. It is natural that some would like a program with historic production bases and others want prices to be the production adjusters.

One approach to thinking about policy alternatives is to discuss how dairymen in different situations could be expected to respond to different options. The key variables in describing these situations might well be:

- (1) Present herd size and current rates of production.
- (2) Recent history of expansion, contraction or steady state.
- (3) Age of operator, likelihood of children taking over business.
- (4) Debt load and equity position.
- (5) Structure of production costs — variable costs as a percent of the total.
- (6) Quality of land and fixed dairy resources and the likelihood of other possible uses.
- (7) Alternative employment opportunities in area.

This is not an exhaustive list. It does suggest that even within one relatively homogeneous marketing area, farmer responses to policy alternatives will be far from uniform. It also draws attention to the differences in incentives that are likely to be associated with each of these different sets of circumstances.

One other way to help create some awareness of the reasons for basic cost-returns differences between areas of the country is to discuss the most recent USDA estimates in some depth. Simply to present these numbers in a fashion similar to Table 3 without discussion of why these averages differ within and between regions is not enough. More insight can be provided about the key differences. Moreover, the places where individuals can influence their own costs can be examined. Some of the common misconceptions about the nature of differences between regions can be explored as well.

All dairymen as well as dairy industry leaders need to be reminded occasionally that the dairy price support program is a national program that undergirds prices throughout the country. The connections between price-supports, the Minnesota-Wisconsin price series, and classified pricing are complex but understandable. What happens to milk supply in one region has an effect in all the other regions just as it does for corn and soybeans. Trying to build walls around regions doesn't solve problems.

Regional conflicts within different sections of agriculture are likely to persist in a competitive environment. Discussions about alternatives can help leaders understand the basis for differences in opinion and the rationale for opposing views. If intelligent compromise is to be achieved this kind of understanding deserves additional attention.