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EXPERIENCE WITH THE FEDERAL MILK MARKETING ORDER PROGRAM

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THE DEVELOPMENT AND USE OF MILK MARKETING ORDERS

More than 40 percent of the milk sold by farmers to plants and dealers is marketed under the terms of the more than 80 federal orders. These markets now extend throughout the nation and include more than half the urban population. In the Northeastern states nearly all of the commercial milk supply is marketed under the terms of either state or federal milk marketing orders.

The classified pricing system used in federal orders is ideally suited to a product like milk. Its adaptability stems from several peculiar characteristics of milk:

1. The perishability of milk in fluid form and the favorable medium that it provides for disease organisms.
2. The bulk of milk and high cost of transportation relative to value.
3. The importance of milk in the diet.
4. The multiple products of milk which are readily identifiable but cannot be produced efficiently in the farm or in the home.
5. The variability of different milk products in their storage life, transportation cost, and demand characteristics.
6. The seasonal nature of milk production relative to its consumption in fluid form.

These characteristics have important marketing implications. The bargaining position of the producer is basically weak because of the perishability of the product. Milk cannot be withheld from market even for short periods except at high cost.

The perishability of milk, the need for maintaining rigid control over sanitary conditions, and the relatively high cost of transporting fluid milk encouraged the development of local production facilities to satisfy the fluid milk needs. The production of milk for manufacturing, therefore, has been concentrated in the lowest cost production areas while the production of milk for fluid use, in general, has continued in areas adjacent to markets, where production costs tend to be higher.

The seasonal nature of milk production results in larger supplies of milk than can be sold as fluid milk at certain times in most local production areas. This seasonally surplus milk must be manufactured and marketed in competition with similar products from specialized low-cost production areas. This tends to result in disorderly marketing conditions and unstable prices.

THE EFFECT OF MARKETING ORDERS

Marketing orders have been highly successful in overcoming many of the marketing problems connected with milk which arise from its unusual characteristics. They have helped to create orderly marketing conditions in fluid milk markets and have stabilized prices.

The inelastic demand for fluid milk has made it possible to increase producer returns beyond what they otherwise would be by increasing the wholesale price of fluid milk.

Prices usually have not been permitted to exceed the theoretical cost of buying fluid milk on a regular basis from surplus production areas. During much of the 1950's this pricing standard resulted in a widening margin in order markets between fluid milk prices and manufacturing milk prices. During the war years when manufacturing milk prices were at their peak, marketing orders undoubtedly held down fluid milk prices.

In recent years milk production has increased in order markets. Mostly, this response has been limited to the additional supply of fluid milk needed by growing markets. In the Northeastern states milk supplies have increased more than the growth in fluid milk sales. The volume of surplus milk has, therefore, increased. While the proportion of milk used for fluid purposes has remained about constant in this region, nationally an increasing proportion of milk has been utilized in fluid form. This decline in fluid utilization in the Northeast relative to the nation as a whole was due not only to increased milk supplies but also to the relatively slow growth in population in the Northeast.

Producers have a strong incentive to meet fluid market health requirements and shift deliveries to order markets when fluid milk prices are high relative to manufacturing milk prices. Increases in fluid milk in order markets, therefore, does not necessarily indicate an increase in total supply.

Marketing orders have increased fluid milk prices to consumers and as a result have reduced fluid milk consumption. This reduction in consumption has been modest, however, because of the inelastic demand for fluid milk. Other factors affect retail prices and con-

sumption more than marketing orders and product cost. Marketing margin is one such factor. Margins are not affected by marketing orders, but by such factors as restrictive licensing and the establishment of minimum resale prices.

In summary, without marketing orders or some similar program, local milk supplies probably would not have increased as much in many markets, and more milk would have been imported to meet the growing need for fluid milk. Fluid milk prices would have been somewhat lower and consumption somewhat higher. Manufacturing milk supplies would have been reduced, and the difference between fluid and manufacturing milk prices would have been less. Milk production over time would have increased more in the lower cost production areas.

The increase in manufacturing milk prices resulting from the support program has more than offset the effect of any increase in manufacturing milk supplies due to the marketing order program. The higher the support price level, the lower the margin that fluid milk prices need to have over manufacturing milk prices to insure adequate supplies of fluid milk in local markets. Support prices for manufacturing milk thus have tended to reduce the difference between manufacturing and fluid milk prices.

MAIN FUTURE PROSPECTS FOR MARKETING ORDERS

Marketing orders will continue to be important instruments for maintaining orderly marketing conditions and stable prices in fluid milk markets. They are likely to be less effective in the years ahead in improving producer returns than in the past. Changing technologies in the processing and distribution of milk are broadening distribution areas and are causing a trend toward regional rather than local market orders. This trend is likely to continue and will alter the geographic patterns of production within regions.

The development of new products, such as instant nonfat dry milk and concentrated fresh or sterile milk may alter the demand characteristics of fluid milk. These new products, because of their reduced bulk, will be less costly to transport than fluid milk and, if accepted by consumers, will improve the competitive position of low cost producing areas. The progress made in reducing costs of processing and distributing fluid milk in local markets will have an important bearing on the competition between fluid milk and substitute products. If costs of producing fluid milk cannot be sufficiently reduced, substitute products will capture a significant share of this market, and fluid market producers will lose some of the price advantage they now enjoy over manufacturing milk producers.