

AN INTRODUCTION TO DAIRY MARKETS AND POLICY ISSUES AND OPTIONS

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For many years it has almost been taken for granted that discussions and papers about dairy markets would be heavily laced with ponderous explanations of confusing and complicated dairy policies. Times are changing and discussions of dairy markets must change with them. This leaflet introduces a new series on dairy markets and policy, in which the authors cover some familiar topics related to ongoing programs, but also explore more subjects that are relevant to these changing times.

A New Era for Dairy Markets?

Cornell professor Leland Spencer, a pioneer in the economic analysis of dairy markets and policy, described four eras in the economic life of the dairy industry:

1. The Era of Small-Scale Competition
(circa late 1700s to 1880)
2. The Era of Price Domination by Dealers
(circa 1880 to 1916)
3. The Era of Collective Bargaining
(circa 1916 to 1933)
4. The Era of Public Regulation
(circa 1933 to present)

Observers of the dairy industry might well ask whether we are at the changing point of a new era of market competition. To be sure, the major federal dairy programs legislated in the 1930s and 1940s are still a part of the economic fabric of dairy markets, but just as certainly they don't play quite the same role they did 20 or even 10 years ago.

During the late 1970s and early 1980s, the federal Dairy Price Support Program (DPSP) basically determined farm prices for milk and wholesale prices for dairy commodities. In the early 1990s, the Dairy Price Support Program is more or less setting the price of butter, but, beyond that, market

prices are fluctuating with considerable velocity and volume above the federal support levels. Dairy Import Quotas (DIQs) are being replaced with tariffs which will be reduced over the remainder of the 1990s, thus opening U.S. markets to greater trade. In 1960, when Federal Milk Marketing Orders (FMMOs) regulated about 40% of the nation's milk supply, the price for class I milk averaged about 56% higher than the M-W price. In 1990, when FMMOs regulated 70% of the nation's milk supply, the class I price averaged about 27% higher than the M-W price. This is an indication that, although federal orders are encompassing a greater share of the milk supply, the importance of class I differentials in determining the overall farm price is declining. Thus, as we look at the three major dairy programs, across the board, their effects on dairy markets are substantially less than they used to be. Perhaps, when we look back from the perspective of the 21st century, we will conclude that the Era of Public Regulation gave way to an Era of Market Competition sometime during the 1990s.

Introducing Dairy Markets and Policy Issues and Options

The Dairy Markets and Policy Education Committee of the Cornell Program on Dairy Markets and Policy has prepared a series of leaflets intended to provide a thorough overview of a comprehensive set of topics related to dairy markets and policy in the 1990s. Written by leading dairy marketing economists in the nation's colleges of agriculture, these leaflets are intended for the use of extension educators, members of dairy industries and organizations, milk producers, regulatory agencies, and legislators. Leaflets which are in the process of being written or which are planned are listed in Table 1. The titles provide an indication of the breadth of topics covered. Additional titles will be considered in response to evolving needs and existing leaflets will be revised over time.

*The author is the E. V. Baker Professor of Agricultural Economics in the Department of Agricultural, Resource, and Managerial Economics at Cornell University.

Table 1. DAIRY MARKETS AND POLICY—ISSUES AND OPTIONS

<u>No.</u>	<u>Title</u>	<u>Author(s)</u>
	An Introduction to Dairy Markets and Policy Issues and Options	Andrew Novakovic
MARKETING		
M-1	Perspectives on Dairy Markets and Policy	Andrew Novakovic
M-2	Milk Production and Supply	Mark Stephenson & Andrew Novakovic
M-3	Dairy Product Consumption and Demand	Robert Jacobson & Joe Outlaw
M-4	The Structure of the U.S. Dairy Sector	Joe Outlaw, Bud Schwartz, Robert Jacobson, & Ronald Knutson
M-5	Regional Milk Bargaining Agencies and Cooperative Milk Price Bargaining	Robert Jacobson & Walter Wasserman
M-6	Milk Producer Payment Security Issues	Hal Harris
M-7	The National Cheese Exchange: Its Impacts on Dairy Industry Pricing	Larry Hamm & Robert March
M-8	Marketing Agencies-in-Common	Robert Cropp, Edward Jesse, & William Dobson
M-9	Dairy Cooperatives and Their Role in the U.S.	Robert Jacobson & Robert Cropp
M-10	International Trade in Dairy Products	William Dobson & Hal Harris
M-11	Markets for U.S. Dairy Exports	William Dobson
M-12	Introduction to Cheese and Nonfat Dry Milk Futures	Robert Cropp & Mark Stephenson
M-13	Introduction to Options Trading in Cheese and Nonfat Dry Milk Futures Contracts	Robert Cropp
M-14	An Overview of the Mexican Dairy Sector	Joe Outlaw & Charles Nicholson
M-15	Dairy Food Processing	Mark Stephenson, James Pratt, & Andrew Novakovic
M-16	Dairy Food Retailing	Ed McLaughlin & Andrew Novakovic
M-17	Milk Assembly	Eric Erba, James Pratt, & Walter Wasserman
M-18	Use of Marketing Boards to Expand Exports	Ronald Knutson
POLICY		
P-1	Market Implications of Government Purchases of Dairy Products	Robert Jacobson to Support Farm Prices
P-2	Calculating Milk Equivalents: Milkfat or Total Solids Basis	Robert Jacobson

P-3	What is a Dairy Surplus?	Joe Outlaw, Ronald Knutson, & Larry Hamm
P-4	Donations and Other Uses of Surplus Dairy Products	Andrew Novakovic
P-5	U.S. Dairy Programs: Who Pays and How Much?	Hal Harris & Joe Outlaw
P-6	Fine-Tuning Support Prices with Cost-Pricing and a Supply-Demand Adjuster	Hal Harris
P-7	Voluntary Milk Supply Management	Robert Cropp
P-8	Mandatory Milk Supply Management	Larry Hamm & Ronald Knutson
P-9	Target Prices and Deficiency Payments	Robert Jacobson
P-10	CCC Dairy Commodity Loans as An Alternative to the Purchase Program	Ronald Knutson & Edward Smith
P-11	International Dairy Trade and Export Policy	Phil Bishop & Andrew Novakovic
P-12	Industry-wide Promotion, Research, and Education	John Lenz, Olan Forker, & Andrew Novakovic
P-13	Minimum Solids-Not-Fat Standards for Fluid Milk	Joe Outlaw, Ronald Knutson, & Robert Schwart
P-14	NAFTA and the U.S. Dairy Industry	Joe Outlaw, Ronald Knutson, Charles Nicholson & Andrew Novakovic
P-15	Marketing Boards and Self-Help Programs	Robert Jacobson & Robert Schwart
P-16	No Federal Programs	Robert Jacobson & Robert Yonkers
P-17	Status of Dairy Waste Regulations	Joe Outlaw, Ronald Knutson, & Robert Schwart
P-18	Policy Issues in Dairy Trade with Canada	Maurice Doyon & Andrew Novakovic
ORDERS		
O-1	Federal Milk Marketing Orders	Robert Yonkers & Tom Jurchak
O-2	Procedures for Developing, Issuing and Amending a Federal Milk Marketing Order	Andrew Novakovic & Mark Stephenson
O-3	The Basic Formula Price and Class III Pricing	Andrew Novakovic
O-4	Class II Pricing Under Federal Milk Orders	Robert Cropp
O-5	Class I Pricing in a Market Area	Robert Yonkers & Ronald Knutson
O-6	Class I Pricing Across Federal Milk Marketing Orders	Andrew Novakovic
O-7	Federal Order Class I Prices and Reconstituted Milk	Robert Cropp & Edward Jesse
O-8	Issues and Options for Using Multiple Component Pricing to Set Pricing in Federal Milk Marketing Orders	Robert Cropp & Walter Wasserman
O-9	Alternative Order Provisions to Facilitate the Orderly Movement of Milk to Fluid Markets	Hal Harris & Jerry Hammond
O-10	The California Milk Stabilization Program	Robert Cropp
O-11	State Milk Marketing Orders and Other State Pricing Programs	Robert Yonkers

The Cornell Program on Dairy Markets and Policy

The Program on Dairy Markets and Policy is an academic program of the College of Agriculture and Life Sciences at Cornell University, administered by the Department of Agricultural, Resource, and Managerial Economics. The Director of the Program is Andrew Novakovic, who is the E.V. Baker Professor of Agricultural Economics.

The Dairy Markets and Policy Education Committee

The Dairy Markets and Policy Education Committee is an extension project of the Program on Dairy Markets, made possible by grants through the U.S. Department of Agriculture. Drawing from leading university dairy marketing economists, its membership presently includes those individuals listed below. Other people who have served on the committee in the past include: Walt Wasserman, Cornell University; Larry Hamm, Michigan State University; Neil Pelsue, University of Vermont; Al Ortego, Louisiana State University; and Robert Schwart, Texas A&M University.

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