

MANDATORY MILK SUPPLY MANAGEMENT

Larry G. Hamm and Ronald D. Knutson*

Introduction

The U.S. dairy industry works within a market economy governed by the laws of supply and demand. This means that market forces interact within the confines of dairy market regulations to influence the level of price, production, and consumption. When production expands faster than consumption, the laws of supply and demand imply that the market price of milk will fall. As the price falls, some farms leave the dairy business because they cannot make a profit or have better opportunities elsewhere. Simultaneously, consumption increases because consumers now find dairy products to be, relatively speaking, a better bargain. These forces continue until a price is determined that balances production and consumption, plus any quantities purchased by government.

If there are excess resources (cows, land, people, etc.) committed to the dairy industry, using a price-lowering strategy to achieve supply-demand balance can be extremely painful for producers. Lower prices need to prevail for an extended period of time until enough dairy farms are forced out of business. Given this situation, direct regulation of the supply of milk coming to market has been advocated by some, instead of the use of the pricing mechanism to achieve supply adjustment. Thus, the basic goal of supply management programs is to control market supply to achieve desired price goals and maintain dairy farms without creating surpluses.

Supply Management Defined

Supply management can be defined as a national program that regulates production and, to a lesser extent, price to match the supply of milk with the demand for milk. Supply management programs may be either

voluntary or mandatory. Voluntary programs are discussed in Leaflet P-7 in this series. Mandatory programs are programs where the farmer has no real choice but to participate under a set of proscribed rules if he/she wishes to remain in the dairy business.

Production bases may be used with either rewards (carrots) or penalties (sticks) to encourage holding or decreasing production, or to discourage increasing production. One way to distinguish between voluntary and mandatory programs might be to look at the size of the carrot or stick. If producer participation hinges on responding to a reward, the program is probably best classified as voluntary. Thus, the Milk Diversion Program (MDP) and Dairy Termination Program (DTP) were voluntary; they offered payments to farmers who agreed to reduce production. If the major incentive is a penalty, then the program must be mandatory. You have no choice but to suffer the penalty if you break the rules. European- or Canadian-style quota programs are mandatory because they penalize producers who exceed their quota. A producer may choose to over-produce, but he/she cannot avoid the penalty.

The use of mandatory supply management programs in the U.S. dairy industry has been discussed and debated for some time but has never come close to being adopted. The broad structure of a mandatory supply management program can be illustrated by the following example.

Suppose at the beginning of the market year, the anticipated commercial demand for milk and milk-related products is estimated at 150 billion pounds. It has also been decided that a reasonable reserve of 5 billion pounds (milk equivalent) is needed for proper functioning of the milk marketing system (see Leaflet P-3). Therefore, total anticipated demand plus reserves

*The authors are, respectively, Professor in the Department of Agricultural Economics at Michigan State University, and Professor in the Department of Agricultural Economics at Texas A&M University. Dr. Knutson is also the Director of the Agricultural and Food Policy Center.

amount to 155 billion pounds of milk. Suppose also at the beginning of the marketing year, production is anticipated to be 162.2 billion pounds. Therefore, available supplies will exceed necessary demand by 7.2 billion pounds, or approximately 5 percent. A mandatory supply management program would attempt to reduce the milk supplies coming to the market by the projected surplus amounts without necessarily reducing farm milk prices.

On the surface, a mandatory supply management program looks deceptively simple. One only has to anticipate market needs at a specified price level and make sure the amount of product that comes to the market is consistent with the demand and price level targets. However, implementing such a program within an \$18 billion industry comprised of about 140,000 commercial dairy farmers in addition to processors, and other concerned parties is anything but simple. The remainder of this leaflet discusses some of the key decisions that need to be made if a mandatory supply management program is to be implemented. This is followed by a discussion of some of the consequences of implementing a mandatory supply management system.

Allocating the "Rights to Produce"

Because one of the goals of a mandatory supply management program is to restrict supply to maintain milk prices above where they would otherwise go, the right to deliver milk to the market becomes a valuable possession. Some method must be developed to allocate these "rights" to current or would-be dairy farmers. Production "rights" are in the form of marketing bases, marketing quotas, etc. There are many ways to allocate marketing bases and a variety of methods have been used in supply management programs around the world.

In the prior example, every producer who delivered milk to the market in the previous marketing year would be allowed to sell milk under the supply management program. However, expected production exceeds projected needs by 5 percent. Each producer would operate under an individual quota pro-rated according to a historical base and the total milk desired. For example, suppose the sum total of production bases is 150.8 billion pounds. Future production was assumed to be 162.2 billion but needs were only 155 billion. Thus, the base is 4 percent over needs and each producer would operate under a quota that is 96 percent of his/her base. A producer having a base of 2,970 pounds per day,

for example, would be told the market only needs 2,850 pounds of production. A successful supply management program must assure that the producer only delivers 2,850 pounds per day in that year.

In future years, producers' production will be allowed to grow in proportion to projected growth in demand. For example, in a couple of years, estimated needs could grow to 162.3 billion pounds. This is 1 percent greater than the sum of all producer bases (150.8 billion); hence, producers would get a quota equal to 101 percent of their individual base.

Allocating bases and quotas to current producers assigns ownership of the production right to individuals. Some supply management programs do not assign the ownership of the production right to individual producers. The government may maintain the ownership for itself and allocate it through a government "quota" agency. Some countries allocate the production rights to the marketing organizations within the dairy system (i.e., the dairy cooperatives or marketing boards), or assign it to the land or production unit. Who owns the right to market milk is an important decision in setting up a mandatory supply management program. Most U.S. producers automatically assume that not only will they get the bases but that they will "own" them.

In the example, it was assumed that the marketing bases will be allocated on a volume (pounds of milk) basis. However, because approximately 63 percent of the U.S. milk supply is now sold as processed and manufactured products, it is conceivable that mandatory bases could be allocated on milk components (i.e., total solids, solids-not-fat, milkfat, etc.). Allocating bases by components might allow for a closer correspondence between final product demand and total production (see Leaflet O-8 for more discussion of milk components). It would also allow for some program flexibility to respond to changing dairy product consumption.

Permanent vs. Temporary Programs

Do mandatory programs need to be permanent or can they be temporary? Temporary programs have been suggested as a safety valve feature of a dairy policy which tries to protect producer prices while mitigating the risk of burdensome surpluses. This approach was included in an industry developed "self-help" program developed in the 1990s and which included industry administration of the program. The operation of a temporary supply management program implies an

ability of the government to fine tune the dairy industry. The price goal of such a program would necessarily need to be near the market-clearing level. If the price goal were substantially above the market-clearing level, the application of a temporary program would be destabilizing. Strong incentives would exist to increase production when the controls were off, thus requiring the re-establishment of the controls. Such an on-off policy would likely be untenably destabilizing. Arguably, another temporary control effort is untenable because production returned to a surplus level soon after the end of the control period.

It also seems unlikely that dairy farmers would be interested in a temporary mandatory program having a goal of only modestly increasing prices or maintaining production near market-clearing levels, as existed in the late 1980s or early 1990s. While not necessarily destabilizing, temporary mandatory programs likely would have fewer benefits than costs.

Two-Tier Pricing Options

Because prices tend to be higher when supply management is used, there will be an incentive for producers to deliver more milk than will clear the market. A mechanism is needed to assure that the amount delivered to the market is consistent with the overall goal. There are two general ways to enforce a quota system. First, an absolute prohibition may be set on milk sales greater than the producer's individual quota. For example, a producer would be allowed to deliver a maximum of 2,850 pounds of milk daily. Any milk produced above this quota would have to be disposed of on the farm or through non-market milk channels.

Because of the variability in milk supply due to weather, feed, or other conditions, most mandatory supply management programs use a two-tier pricing enforcement mechanism. Under two-tier systems, the producer is paid a "good" or "high" price for the milk delivered up to the quota. The price for this milk is often referred to as the first-tier price. Milk delivered above the quota would be paid for at a substantially lower, second-tier price.

Cost Pricing. In order to assure that the two-tier pricing system works to enforce quotas, the second-tier price must be set below the average variable cost of producing milk. In other words, a farmer will not

expand production if the price of producing an extra hundred pounds of milk is less than the out-of-pocket costs of producing that extra hundred pounds. Because marginal costs are difficult to estimate, economists generally resort to variable or out-of-pocket costs as the basis for a two-tier pricing system. Out-of-pocket costs per hundred pounds vary widely across the United States largely because of differences in purchased feed inputs versus farms that grow their own feed. Therefore, the lowest variable costs tend to be in the more family-oriented dairy farms of the Midwest and Upper Midwest. The highest variable costs tend to be in the larger scale dairies of the Southeast, Southwest, and West.

The regional difference in variable costs has implications for the level of the second-tier price and the regional distribution impacts of two-tier pricing plans. If the second-tier price is set between the lowest and highest variable cost regions, some regions and farmers will have incentives to reduce production while others will not. The result is inequities among producers and regions. To avoid such inequities, the second-tier price must be set below the variable cost of the lowest cost region. The closer the second-tier price comes to the first tier, the less bite it has and the more inequitable it is. Nott and Hamm have estimated that the second-tier price should probably be no higher than one-quarter to one-third of the first-tier price.¹ Thus, the second-tier price level in the U.S. might be as low as \$3.00 to \$4.00 per hundred pounds.

A hypothetical producer's farm illustrates this point. Suppose the milk prices are \$12.50 and \$3.00 for the first-tier and second-tier, respectively. If the producer had a base of 2,850 pounds, his/her daily milk sales revenue would be \$356.25 (28.5/cwt. @ \$12.50). For any production in excess of 2,850 pounds, he/she would receive only \$3.00 per hundredweight. At this low price, no increase in production could make up for lost revenue. Because the second-tier price is so low, he/she would strive to come as close to his/her marketing base or quota (2,850 pounds) as possible. It should be clear that, under this plan, there would be no incentive for a producer to get into dairy farming without base. This raises the issue of the entry of new producers, which will be discussed subsequently.

¹ Sherrill B. Nott and Larry G. Hamm. *Quotas for U.S. Dairy Farmers: A Review*, Agricultural Economics Report No.490, Department of Agricultural Economics, Michigan State University, East Lansing, MI, September 1986, p.38.

Class IV Pricing. One option that has been discussed for setting the second-tier price is to peg the second-tier price according to world prices of dairy products. Such two-tier pricing plans are referred to as two-price plans in international trade circles. This type of plan is used in peanuts, whereby each peanut producer has a marketing quota. The producer is free to produce in excess of the quota only with a contract negotiated before production takes place. A plan like this has come to be called class IV pricing. In the framework of federal order classified pricing, it envisions a fourth, lower-priced class that would be available to clear markets.

The issue in dairy is whether such a plan would restrain production in a two-tier pricing context. The answer is probably not and certainly not without some rather serious inequities regionally and among producers. International dairy product prices suggest that the class IV price would need to be in the \$6-\$8 per hundredweight range for the U.S. to be competitive in the world market. U.S. processors who paid this amount for milk going into manufactured products could probably compete in world markets on a cost basis. A two-tier program using prices at this level may do little to restrain production and would be quite inequitable regionally as a production management plan. Class IV pricing plans are discussed in greater detail in Leaflet P-12 on export market assistance programs.

Managing and Adjusting a Quota System

The uniqueness of a market system is that countless “little decisions” are made based on economic competitive forces without centralized management or direction. A quota system which attempts to maintain price and manage quantity requires that a significant number of decisions be consciously made by a central authority, whether it is a board of dairy farmers or government bureaucrats. A quota system makes the “invisible hand” of free markets visible.

Who Administers? A critical decision to be made in setting up a program is to specify who makes the rules and administers the program. Most quota programs are managed by either a government unit or an industry group under the direct auspices of the government. In the United States, a quota system would most likely be run by the U.S. Department of Agriculture’s Agricultural Stabilization and Conservation Service

(ASCS), perhaps in cooperation with federal and state milk marketing order regulators. This would be consistent with how industry regulation has been approached in the past.

Transferability. Another critical issue in managing a mandatory supply management program is the issue of transferring bases and quotas. The need to transfer bases and quotas arises when supply controls are in place for more than a year or so because of the natural evolution of markets as producers leave the industry and others attempt to enter or expand. There are generally two polar extremes on the philosophy of quota transfer. The first option is to prohibit the transfer of the “rights to produce” among producers. This system is currently being used by France and is implemented by having a government body which totally owns and allocates the quota.²

The second option is to use some form of a market for quota to facilitate the transfer of quota between producers. Unless they are expressly prohibited, markets for quota can be relatively free, placing few restrictions on quota prices, the amount of quota that could be purchased by individual producers, or the amount of quota that can be transferred across production regions or political boundaries.

However, quota markets are usually not totally free. The most frequent restriction involves geographic transfer. For example, in the European Community (EC), quotas cannot be transferred between countries. Similarly, in Canada, quotas are not transferable between provinces. For peanut and tobacco producers in the United States, the transfer of quotas across county lines is restricted and has become a highly controversial issue. Such restrictive limits on transfer tend to freeze the structure of an industry, at least in a regional context.

Many existing quota programs also restrict the amount of quota that could be purchased by an individual producer. These restrictions are designed to prevent the concentration of the right to produce milk into fewer and fewer hands. Also, nearly all quota programs have some form of minimum shipment or use regulations. These “use the quotas or lose them” regulations are required if the quota system is to achieve its goal of balancing supply with demand. In other words, the system is obligated to make sure it delivers enough, not just prevent delivering too much. Minimum use restrictions also are designed to prevent quota specula-

² Sherrill B. Nott and Chris J. Doyle. *Milk Quotas in the European Community: Highlights for American Policy Makers*, Agricultural Economics Report No.519, Department of Agricultural Economics, Michigan State University, East Lansing, MI, December 1988, p.9.

tion, i.e., buying quotas for the purpose of profiting on their resale.

New Producers. The treatment of new producers is another important quota management issue. If the only way to get quota is to buy it, the cost and availability of the quota becomes a barrier to entry. Such a restricted entry system may mean that the only way to get into milk production is to have investor support, marry a dairy farmer's child, or inherit it. Arguably, this is the situation today and has been for some time. A new entry option to buying or inheriting base is to give new producers first priority for new base resulting from expanded consumption. This could mean the quota would never be over 100 percent of base.

Facilitating Change. Dairy markets, whether they are controlled through a mandatory supply management or price regulated system need to be allowed to evolve and change. A successful supply management program must contain mechanisms to allow for production capacity to adjust over time. Annually, the quota control agency must make forecasts of milk demand and supply in order to specify the proper amount of quota. In addition, because regulators and farmers are usually interested in farm incomes as well as price, the quota system must have some mechanism to adjust milk pay prices to reflect changes in cost of production and/or demand conditions. Price changes based on cost of production and demand are typically handled through economic formulas which plug in cost and demand indices generated by the quota governing agencies (see Leaflet P-6 for a discussion of cost pricing).

If aggregate dairy demand changes, there must be some mechanism to adjust the quantity of quotas allocated in the dairy sector. In a non-market quota transfer system, the regulating government body has the power to recall or retire quota certificates as they are returned to the central clearing agency. In quota market transfer systems, such as those in Canada, the quota exchanges take a percentage of the quota marketed through the exchange and transfers it to the quota regulatory agency. In both cases, a producer's quota can also be increased or new quota can be created and offered.

Distribution of Impacts

The basic goal of most mandatory supply management programs is to eliminate surpluses that are gener-

ated by milk price levels set above market-clearing levels. In nearly all cases, mandatory quota programs have been successful in eliminating surplus. Experiences in Canada³ and, more recently, Europe⁴ demonstrate how successful quota programs can be. In addition, properly managed quota programs generate significant amounts of information about changes within the dairy sector which allow for orderly marketing in the dairy sector over time. Reduced surpluses mean reduced government expenditures for surplus product purchase or export subsidies. However, quota programs often result in shifting the cost burden of dairy farm price supports to consumers. Dairy product consumers and taxpayers are not always the same group; so the implementation of mandatory supply control programs can affect the income distribution pattern in the country. Progressive income tax rates are intended to hit harder taxpayers who are better able to pay. Higher dairy prices hit harder those who eat more dairy products, including low-income families and others who don't necessarily have a high ability to pay.

Dairy Demand Impacts. If supply controls are used to prevent farm prices from falling or to increase farm prices, consumer dairy product prices will be higher, too. Under quota systems, the tendency for dairy product prices to be higher poses a potential threat of lost dairy markets.

Raw milk prices, however, are not the only component of consumer dairy product prices. Other competing foods may also be marketed under less than effective competitive conditions. Consumer food preferences can change, shifting demand for products despite their current prices. Higher milk prices mean a lower quantity demanded even though dairy product demand is generally highly price inelastic. In Canada, the degree of consumer concern and reaction, perhaps, can be gauged by the amount of traffic across the U.S.-Canadian border to buy dairy products in the United States. Continuous realignments of food demand take place in a price adjusted system. Quota systems require that demand and consumer market monitoring become part of the "visible hand" management process included in a mandatory supply management program. These effects tend to be masked inside Canada where no options exist. A case in point may be the relative value of milkfat or butter in Canada vs. the U.S. Canadian

³James Sleper and Robert E. Jacobson. Milk Production Controls in Canada: Implications to the United States, ESS-617, The Ohio State University, Columbus, Ohio, September 1988.

⁴Nott and Doyle. Op.cit.

consumers have been slower to express concerns about fat in the diet, but as they have, the Canadian response has been more encumbered by their quota system.

Capitalization of Quota Values. Because supply management programs are designed to hold milk prices or keep them from falling, the first producers to receive quota “rights to produce” receive a significant windfall gain. If quotas are allowed to be transferred, their value will eventually rise to the value of the benefits accruing to them over time. This is true whether quotas are tied to farms, or cows, or just pieces of paper.

The evidence of capitalization of quota values is clear. In Canada, quota values currently account for approximately 25 percent of a typical dairy farm’s asset value.⁵ A recent study of the European quota system indicates that within a relatively short three-year period, quota values have become capitalized in most European countries.⁶ Once quota values exist, they become a cost of expanding milk production. The effect is to make dairying less cost efficient and competitive. In some quota programs, serious attempts are made to keep quota values from being included in cost of production formulas and milk prices.

It should be clear that capitalization is not unique to supply management programs. Any government program that results in higher returns to producers gets capitalized into the value of some farm assets. Deficiency payments in crop programs get capitalized into the value of cropland. Higher milk support prices get capitalized into the price of replacement heifers and milking cows. Swings in the difference between the value of dairy animals for slaughter and for milking reflect the profitability of dairy farming which is influenced by the capitalization of farm program benefits.

In other words, capitalization is not a problem if there are no program benefits. But, if there are no program benefits—no higher milk prices—why have a production control program? Two alternative options frequently proposed for dealing with the capitalization problem involve government-owned quotas and temporary quotas.

Government-owned quotas mask the capitalization problem. The handing out of quotas becomes a political favor. Incentives develop for under-the-table deals. The point is that political systems can only mask

economic forces. Of course, existing producers favor a quota transfer system where they receive the benefits of changes in quota values. New producers would prefer not to have to buy quotas.

There has been little successful experience with temporary supply management programs. Either the program is temporary but does not solve the problem, or the program works well but then no one wants it to expire. The original EC quota program instituted in 1984 was meant to expire in 1989. The expiration date has since been extended. In the meantime, quota values have become capitalized into the asset structure of the European dairy industry. Eliminating them now would cause economic losses to dairy producers.

Given that it is extremely unlikely that capitalization will be preventable, some mandatory supply programs, like those in Canada, attempt to deal with the problem by allowing the capitalization process to take place in the most open and visible way possible. Open auction market trading of quotas is an example. In Canada, computer trading is used to help buyers and sellers get together and agree on a price. If capitalization cannot be stopped, letting everyone know what quota values generally is considered to be an efficient and fair system for trading quotas.

Structural Consequences of Quotas. The initial implementation of mandatory supply management by allocating bases and quotas to existing dairy farm operations has the effect of stabilizing the current human and physical capital base, technological practices, and location of milk production. The tendency of mandatory supply management programs to freeze the industry structure can be viewed as a positive or negative characteristic of quota type programs. Those viewing the dairy industry as a positive influence on rural economic development, land tenure patterns, and preservation of rural lifestyles tend to extol the merits of mandatory supply management programs for this very reason. On the other hand, those who prefer a freer, dynamic, business-like industry view the tendency of quotas to freeze industry structure and progress as one of the greatest weaknesses of mandatory supply management.

How quotas are handled affects how quickly the structure of dairy farming changes—that is, the numbers of farms, farm size, and where farms are located.

⁵Nott and Hamm. *Op.cit.*, p.22.

⁶Nott and Doyle. *Op.cit.*, p.5.

Existing quota holders have a windfall gain which can be used to buy more quota. High-cost farms will still have more problems competing than low-cost farms. People will retire. In fact, high-valued quotas can even hasten retirement. The first generation of producers to receive valuable quotas for free, essentially, are given a golden parachute opportunity for retirement. History has shown that some producers will indeed retire sooner when given this chance. New people also will come in over time. Changes in dairying are inevitable, quotas or no quotas.

Quota programs can be especially hard on potential new dairy farmers. The required quota allocation is either not available to new entrants or must be purchased, which adds further to an already high start-up cost. This is particularly important for people who want to start but do not have the benefit of a parent or other patron already being in the business.

Dairy sector adjustment can continue by allowing the relatively unrestricted transfer of quotas. Unfortunately, herein lies the quota transfer paradox. Allowing quotas to be transferred minimizes the possibility of structural and technological inefficiency but maximizes the likelihood that quotas will be capitalized into the cost structure. On the other hand, severely restricting the transfer of quotas can lead to significant cost increases from lack of structural and technological change. The quota transfer paradox cannot be avoided. It can, however, be evaluated only within the context of the debate over the basic purposes for implementing mandatory supply control programs.

Impacts Beyond the Dairy Sector. Implementing a mandatory supply management program can have impacts beyond the dairy industry. Evidence suggests that, after an initial adjustment period, producers operating under quota continue to adopt new technology, thereby increasing their herd's productivity and lowering average costs. In order to maintain their quota shipments, they usually reduce their herd size. By capping output, quotas indirectly cap total income until they can garner sufficient capital to buy more quota. Net income can still be increased by lowering costs. Non-dairy income is also possible. In both Canada and the EC, the human and financial resources on the farm that are freed up by the implementation of quota programs have been allocated to other money-making enterprises, often other forms of animal agriculture.⁷ If

resources flow from dairy into products like specialty fruits and vegetables, quota systems may cause surplus and price problems in these commodity sectors.

The implementation of quotas also has significant international implications. Unless a class IV pricing option is used, implementing mandatory supply management locks the dairy industry into its domestic markets. World dairy markets then become a disposal ground for milk supplies that slip through the management of mandatory control programs. Under these domestic and world price conditions, the quota-imposing country must adopt either import quotas or high tariff protection for its domestic markets. Otherwise, foreign supplies would invade the quota-managed domestic industry and disrupt the supply-demand balancing goal of the mandatory supply management program.

In an increasingly interdependent world, domestic commodity policies are directly linked to international trade flows (see Leaflets P-11 and P-12 for a more complete discussion of international trade). Strict milk quotas in Europe has had the effect of significantly strengthening the world markets for nonfat dry milk and, to a lesser extent, cheese and butter during the late 1980s. Also, the imposition of quotas or tariffs on one commodity can frustrate multilateral trade negotiations. Other agricultural commodities or non-agricultural product producers become frustrated at their inability to trade away dairy market protection for increased trading opportunities for their respective products.

Conclusions

The implementation of a mandatory supply management program in the U.S. dairy industry would have many consequences. The specific impacts hinge on the specific characteristics of the program that would be chosen. Its direct impacts on the dairy sector, and the indirect impacts on other commodity sectors and U.S. trade policy, means that a system of mandatory supply control will not be adopted in the U.S. without considerable debate and analysis. Dairy industries in other developed countries have had significant experience with mandatory supply control programs.

The parameters and decision points needed to adopt a mandatory supply management program are generally known and understood. Quota programs can work to reduce milk surpluses, cut government expen-

⁷Nott and Hamm; and Nott and Doyle. Op.cit.

ditures, and provide some social control over the evolution of the dairy industry. Although they are complex, they can be managed. Whether one considers those benefits worth the costs depends in large part on whether one views the U.S. dairy industry as primarily a business enterprise or as a social institution. Resolution of debates on basic philosophical considerations will not be resolved by reliance on economic analysis alone.

The priority given to policy debates on the merits of mandatory supply management programs is conditioned by economic conditions within the dairy sector. As the industry suffers a financial squeeze because of declining price levels, interest in mandatory supply management rises. Likewise, during times of major structural change and regional shifts in milk production patterns, interest in the social impacts of quota type programs increases. Because mandatory supply management programs do exist and are used, they provide

ongoing evidence as to their benefits and costs to our dairy policy debate process.

As interest in mandatory production controls has ebbed and flowed in the U.S. dairy sector, U.S. dairy farmers have not convinced policymakers that they are ready to sacrifice individual entrepreneurial freedom for the discipline of mandatory controls. Perhaps their decisions have been colored by the fact that taxpayer expenditures to run an alternative dairy policy have always been available. The majority of dairy producers have been able to maintain their dairy farm income at reasonable levels without having to sacrifice entrepreneurial freedom. Should society do away with the current method of supporting dairy farmers' incomes, the trade-off between financial liability and entrepreneurial freedom might persuade more U.S. farmers to favor a managed approach.