

# Supply Programs of the Past

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# Timeline

**1982:** Omnibus  
Budget  
Reconciliation Act

**1985:** Food Security  
Act → ***Dairy  
Termination Program***

**1990:** Omnibus Budget  
Reconciliation Act

**1983:** Dairy Production  
Stabilization Act → ***Milk  
Diversion Program***

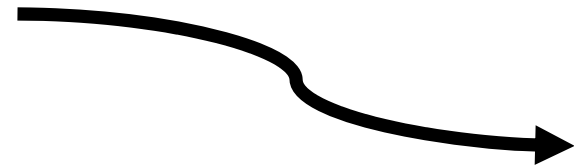
**1988-1990:** Secretary of Agriculture  
given discretionary authority

## Pre 1982

- FOCUS: Stabilizing markets
- Government assistance via ***price support mechanisms*** & ***government purchases*** of surplus product
  - Encouraging milk production to rise
  - Concern over federal budget – no end in sight
- Need for supply to be managed

## Pre 1982

- Congress faced with two alternatives:
  - 1. Reduce support price** → 1981 Agriculture and Food Act:  
Minimum support prices set legislatively (annual increases)
  - 2. Continue to support farmers but reduce production surplus by some other means**



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# Omnibus Budget Reconciliation Act of 1982

- Authorized a means for dairy farmers to help fund the dairy price support program
- First **refundable assessment** program used for dairy
  - All producers assessed
  - Portion of assessment is refundable to those producers who do not increase production
  - Those who increase, pay those who decrease

# Omnibus Budget Reconciliation Act of 1982

- October 1983 – September 1984
- All dairy producers assessed
- \$0.50 assessment on all milk marketed
- Additional refundable \$0.50 assessment – refundable to farmers who reduced production by an amount specified by Secretary of Agriculture
- \$800 million collected from dairy farmers

# Omnibus Budget Reconciliation Act of 1982

- Proved to be an effective instrument for generating revenue to fund the program
- Little effects on production reduction
- Assessments unpopular with farmers
- Congress forced to seek alternative methods to reducing milk production



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# Dairy Production Stabilization Act of 1983

- Act created the ***Milk Diversion Program***
- 1<sup>st</sup> major attempt by government to control milk supplies
- Economic incentive for dairy producers to reduce milk production
- Paid farmers to cut production

# Milk Diversion Program

- January 1984 – March 1985
- Direct payments of \$10/cwt offered to farmers who reduced their milk production by 5-30% from their historical base
  - Historical base = average 1981-1982 or 1982 production
- 38,000 (20%) of commercial dairies participated
- \$955M in payments

# Milk Diversion Program

- 9.4B LBS reduced
- 2.2B LBS “AIR”
  - Some producers with had already reduced their production prior to the contract period
  - Nonparticipants increased production during the time
- **7.4B LBS estimated total reductions**

# Milk Diversion Program

- Upon program completion:
  - Dairy supplies rebounded almost immediately
  - Farmers restored cows
  - National production jumped to record levels
  - Surplus again became a problem
- Did not solve the problem; only ***delayed the problem***

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Security Act →  
***Dairy Termination  
Program***

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# Food Security Act of 1985

- Act created several changes in dairy policy including the ***Dairy Termination Program***
- *“Whole Herd Buyout Program”*
- 2<sup>nd</sup> major attempt by government to control milk supplies
- Government pays for dairy herds to go out of production

## The Dairy Termination Program – *“Whole Herd Buyout Program”*

- Voluntary government program
- Government pays farmers to take dairy cattle and milking facilities out of production for **5 years**
- Animals required to be exported or slaughtered
- Those interested, submitted bids for the minimum price they would be willing to comply (i.e. “the price to quit”)
- Sought long-term production impacts; difficult and expensive to re-enter the industry



## The Dairy Termination Program – “*Whole Herd Buyout Program*”

- April 1986 – September 1987
- Program goal: 12B pounds (~8.7%) of milk removed from market
- 14,000/39,534 bids accepted to achieve goal
- \$1.8 B paid to farmers
- Non-uniform participation
- More effective than Milk Diversion Program
- Unknown how many operations returned; did not appear to be many

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Agriculture given discretionary  
authority

# Secretary of Agriculture Authority

- Discretionary authority given to the Secretary of Agriculture
- 1988-1990
- If Commodity Credit Corporation (CCC) purchases were projected to be more than 5B LBS of milkfat equivalent, the Secretary may implement the:
  - Milk Diversion Program
  - Dairy Termination Program
- Authority never used.

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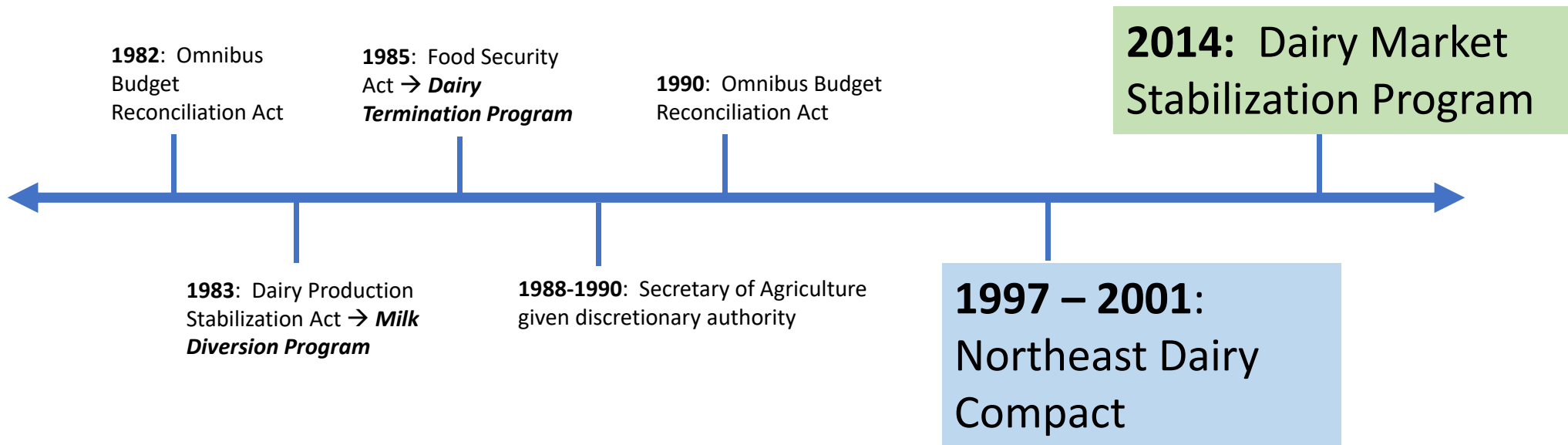
# Omnibus Budget Reconciliation Act of 1990

- Second **refundable assessment** program for dairy
- All producers assessed;
- Refundable to farmers who do not increase production
- \$0.05/cwt assessment on all milk marketed during 1991
- Minimum of \$0.1125/cwt between 1992 – 1995, increased annually

# Omnibus Budget Reconciliation Act of 1990

- Approximately 1/3 of producers were eligible and applied for a refund
- Total refunds \$23.2 M
- Successful at generating revenue and offsetting government expenditures
- Refunds not set high enough to impact farm production decisions

# Other Recent Government Attempts



# Northeast Dairy Compact

- Agreement among the six New England states to set Class I prices for milk sold in the region
- 1997 - 2001
- **Supply Management Refund** - producers eligible to receive a refund if their milk production during the year grew no more than 1% from the previous year
- Refunds were a redistribution of the funds that were generated from the Compact's Class I minimums
- Monetary benefit to those maintaining production levels



# Dairy Market Stabilization Program (DMSP)

- Coupled with the Margin Protection Program (MPP) in the Senate version of 2014 Farm Bill
- Mandatory if participating in MPP (MPP itself voluntary)
- Designed to disincentivize production growth during low milk price periods by imposing penalties on farmers who did not reduce milk production
- Penalties increase as margin decreases; maximum 8% of milk price
- Triggered when MPP margins fell:
  - Below \$6/cwt for two consecutive months, or
  - Below \$4/cwt for one month

Thank you.