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What is a Dairy Surplus?

by

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When people talk about surplus in the dairy sector, they're often not all talking about the same thing. The concept of surplus has many meanings in the dairy industry, none of which tell the whole story. For example, some consider "surplus milk" to be the milk available over and above a market's need for fluid milk. The milk produced during the spring flush that exceeds spring consumption might be called a surplus. But these definitions are too narrow to be useful for a larger concept of surplus.

What about a state whose farmers produce more milk than its residents consume in the form of dairy products? Many would consider that state to have a surplus. Others would argue that states that sell dairy products to the government under the dairy price support program have a surplus. Although these examples sound more like descriptions of overall surplus, they may not be consistent.

Several states that sell products to the government produce less milk than the sum of all the dairy products consumed in those states. There can be and often is a difference between having a surplus of milk and having a surplus of products made from milk. The Northeast and Texas, for example, are substantial net importers of dairy products, yet both record some sales to the government.

Economists use a definition of surplus that relates production and consumption to price. In a market economy, the supply of a product and the demand for it interact to create what

economists call a "market clearing price." At that price, all of the product brought to market is consumed by the market. If prices were lower, production would fall short of the amount people would want to buy at those lower prices, and a shortage would exist. Conversely, if prices were higher, production would be greater than the amount consumers would want to buy and a surplus would occur. If other factors, such as a federal program, restrict the natural operation of the market, a true market clearing price may not be determined.

In the dairy industry, if the dairy price support level pushes market prices above the market clearing price that would have resulted naturally for the quantity of milk available, more milk is supplied than can be removed by commercial customers. The amount of this extra supply is referred to by economists as surplus. Such situations can occur without government programs. If farmers have a bumper crop of turnips, or if car manufacturers overestimate their sales, there will be a surplus of turnips or cars. Normally, this problem is corrected by a drop in prices, which encourages consumers to buy more.

When government programs exist to support prices, solutions to surpluses may involve other ways to increase consumption and reduce the excess product, such as promotion or food donation programs. One federal strategy employed in the case of dairy surpluses is the purchase (by the government) of storable dairy products (cheese, butter, and nonfat dry milk) under the dairy price support program. Products acquired in this way can be used in domestic or foreign feeding programs.

The concept of a U.S. dairy surplus is larger than the seasonal or regional ideas discussed earlier. It involves an inequality in the overall supply of milk and the commercial demand for it at the available price. The dairy price support program at times can be both a cause (if the program pushes prices above the market clearing price) and a solution (through product sales to the government) for this imbalance.

Resource: "What Is a Dairy Surplus?" a paper by Larry Hamm, one in the series "Dairy Policy Issues and Options for the 1990 Farm Bill."