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THE DAIRY INDUSTRY AND DAIRY POLICY IN 1984

by

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Preface

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This paper is the third in a series and was preceded by:

The Dairy Industry and Dairy Policy in 1983, Andrew Novakovic, Wayne Knoblauch, Walter Wasserman, and Robert Boynton, A.E. Ext. 83-5, Department of Agricultural Economics, Cornell University, February 1983.

The Dairy Industry and Dairy Policy in 1982, Andrew Novakovic, A.E. Ext. 82-4, Department of Agricultural Economics, Cornell University, February 1982.

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Introduction

The objectives of this paper are: first, to review the current economic situation of the dairy industry and the dominant dairy policies and issues of 1983 and second, to assess the economic and political outlook for the dairy industry in 1984. The paper begins with a discussion of the economic status of dairy markets in the U.S. at the end of 1983, followed by a review of the major policy issues of 1983. The paper concludes with some comments on the 1984 economic outlook for the U.S. dairy industry and on the possible policy changes that could shape the dairy economy beyond 1984.

The National Economic Situation

Milk Production

Dairy farmers continued their trend for breaking milk production records. The 140 billion pounds of milk produced in 1983 exceeds last year's record level by over 3%, as shown in Table 1. Although cow numbers increased almost 1% last year they increased at a slightly lower rate than they had the year before. Production per cow increased considerably during 1983, posting an annual gain of over 2%. The number of heifer replacements is unchanged from last year and still represents a large reserve for future growth in cow numbers.

Imports and Exports

The Bureau of Census data on imports, shown in Table 2, often are inconsistent with quotas and Customs Service data on imports of quota products. Given this caveat, it appears that imports were up about 9% in 1983.[1/] American cheese and cheese other than Italian and Swiss-types account for most of the gain. Total exports and shipments were down from the very high levels recorded in 1982, despite a modest increase in USDA shipments under international aid programs. Contrary to the historic pattern, exports slightly exceeded imports in 1983, although the level was much smaller than it was in 1982.

Dairy Product Consumption

Commercial disappearance increased a modest 0.4% in 1983. Earlier reports by USDA indicated a substantial decline in disappearance; however, recent upward revisions in milk production implied that more milk was used in commercial channels than had been believed earlier.

Domestic disappearance data for specific dairy products are not yet available for 1983. The data for 1982, shown in Tables 3 and 4, reveal no significant changes in recent trends. Lowfat milk and cheese are the only

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[1/] Unless otherwise noted, all aggregations of dairy products are reported in milk equivalent units based on the butterfat content of the individual products and raw milk (fat solids basis).

Table 1. U.S. Milk Production, Cattle Numbers, and Production Per Cow

	Average 1973-1977	1978	1979	1980	1981	1982	1983[a]	1983 as % of 1982
Milk Production (mil. lbs.)	117,862	121,461	123,411	128,525	133,013	135,802	139,968	103.1
Production Per Cow (lbs.)	10,587	11,243	11,488	11,889	12,177	12,309	12,587	102.3
Milk Cows on Farms, average during year (thous.)	11,152	10,803	10,743	10,810	10,923	11,033	11,120	100.8
Milk Cattle on Farms, January 1 (thousands)								
Milk Cows and Heifers that have Calved	11,239	10,896	10,790	10,779	10,860	11,012[a]	11,066	100.5
Milk Cow Replacements, Heifers 500 Pounds and Over	3,949	3,886	3,932	4,158	4,345	4,532[a]	4,532	100.0
Heifers Per 100 Cows (no.)	35.1	35.7	36.4	38.6	40.0	41.2[a]	41.0	99.5

Source: Milk Production, U.S. Department of Agriculture, February 15, 1984.

[a]Preliminary.

Table 2. U.S. Dairy Product Imports and Exports

	Average 1973-1977	1978	1979	1980	1981	1982	1983	1983 as % of 1982
	(thousand pounds of product)							
American Cheese	37,428[f]	17,785	17,964	18,077	19,941	17,845	19,750	110.7
Italian Cheese	11,454	10,311	7,692	7,057	8,549	13,575	13,510	99.5
Swiss Cheese[a]	70,904	92,615	93,971	80,688	79,416	82,041	85,015	103.6
Other Cheese[b]	108,499	121,475	128,662	125,359	139,845	155,882	181,725	116.6
Total Cheese	228,286	242,186	248,289	231,161	247,661	269,343	300,000	111.4
Butter, Butteroil and other Butterfat Mixtures	18,942[g]	4,693	4,554	4,462	4,231	5,281	5,000	94.7
Nonfat Dry Milk	77,745[h]	2,388	2,178	4,890	2,751	1,935	1,900	98.2
Casein	108,109	137,134	150,827	151,226	127,823	176,752	160,845	91.0
	(million pounds of milk equivalent, fat solids basis)							
Quota Imports	1,673	1,226	1,235	1,820	2,061	2,219	n.a.	-
Non-Quota Imports	800	1,084	1,070	289	268	258	n.a.	-
Total Imports	2,472	2,310	2,305	2,109	2,329	2,477	2,700	109.0
Exports and Shipments[c]								
Commercial[d]	1,068	927	982	932	3,682	4,537	3,300	72.7
USDA[e]	35	51	38	56	67	644	675	104.8
Net Commercial Imports	1,405	1,383	1,323	1,177	-1,353	-2,060	-600	29.1

Source: Dairy Outlook and Situation, U.S. Department of Agriculture (from U.S. Department of Commerce, Bureau of Census); 1983 estimated by Andrew Novakovic from available USDA data.

[a] Includes all Emmenthaler type and Gruyere process cheese.
[b] Includes Edam, Gouda, Blue Mold, Roquefort, Pecorino, Gjetost, Bryndza, soft, ripened cheeses, and others.
[c] Shipments are exports to U.S. territories.
[d] Includes sales for dollars and government to government sales.
[e] Includes P.L. 480 and AID programs.
[f] Excluding abnormally high imports in 1974, the average equals 18,761.
[g] Excluding abnormally high imports in 1973, the average equals 3,443.
[h] Excluding abnormally high imports in 1973 and 1974, the average equals 2,032.

Table 3. U.S. Total Domestic Disappearance of Selected Dairy Products from Commercial Sources

	Average 1973-1977	1978	1979	1980	1981[a]	1982[a]	1982 as % of 1981
			(million pounds of product)				
Whole Milk	37,951	34,938	33,937	32,754	31,685	30,670	96.8
Lowfat Milk	16,427	19,813	20,647	21,743	22,443	22,780	101.5
Frozen Desserts[b]	5,880	6,008	5,885	5,943	6,029	6,067	100.6
Cottage Cheese	1,031	1,036	1,010	1,017	992	978	98.6
Butter	901	894	921	894	880	872	99.1
Cheese[c]	3,133	3,676	3,814	3,810	4,043	4,197	103.8
Canned Milk[d]	1,886	1,657	1,646	1,586	1,640	1,608	98.0
Dry Milk[e]	869	746	800	747	643	643	100.0
All Products (M.E.)							
Domestic[f]	113.8	117.9	119.9	118.4	119.6	121.5	101.6
Commercial	114.3	118.8	120.2	119.2	120.5	122.4	101.7

Source: Dairy Outlook and Situation, U.S. Department of Agriculture, June and December issues.

[a] Preliminary.
[b] Excludes mellorine.
[c] Excludes cottage cheese.
[d] Whole and skim evaporated and condensed milk, bulk as well as canned.
[e] Includes dry whole milk, nonfat dry milk, and dry buttermilk.
[f] Domestic civilian disappearance from commercial sources, which includes milk consumed on farms but excludes donations for food use.

Table 4. U.S. Per Capita Domestic Disappearance of Selected Dairy Products from Commercial Sources

	Average 1973-1977	1978	1979	1980	1981[a]	1982[a]	1982 as % of 1981
				(pounds)			
Whole Milk	179.2	159.0	152.0	145.0	139.0	133.0	95.7
Lowfat Milk	77.3	89.9	92.5	96.3	98.4	98.9	100.5
Frozen Desserts[b]	27.4	27.1	26.2	26.2	26.3	26.2	99.6
Cottage Cheese	4.8	4.7	4.5	4.5	4.3	4.2	97.7
Butter	4.2	4.0	4.1	3.9	3.8	3.8	100.0
Cheese[c]	14.6	16.6	17.0	16.8	17.6	18.1	102.8
Canned Milk[d]	8.8	7.5	7.3	7.0	7.2	6.9	95.8
Dry Milk[e]	4.1	3.4	3.6	3.3	2.8	2.9	103.6
All Products (M.E.)							
Domestic[f]	532	535	538	525	525	529	100.8
Commercial	534	539	539	529	529	533	100.8

Source: Dairy Outlook and Situation, U.S. Department of Agriculture, June and December issues.

[a] Preliminary.
[b] Excludes mellorine.
[c] Excludes cottage cheese.
[d] Whole and skim evaporated and condensed milk, bulk as well as canned.
[e] Includes dry whole milk, nonfat dry milk, and dry buttermilk.
[f] Domestic civilian disappearance from commercial sources, which includes milk consumed on farms but excludes donations for food use.

major products showing some growth in sales, with some even smaller gains in frozen desserts disappearance. Whole milk sales, although still representing a large share of total dairy product sales, continue to decline at a fairly substantial rate, 3.2% in 1982.

Commercial Stocks

In 1982, commercial stocks fell 15%. This large drop, the largest since 1975, was more than recouped in 1983. Although commercial stocks of nonfat dry milk fell, total stocks rose over 18%, as shown in Table 5. Butter stocks led the way with a 30% increase, following a 40% decrease in 1982. In 1982 it appeared that many manufacturers found it profitable to let USDA carry a greater part of their inventory. Changes in how USDA administers its purchasing activities may have discouraged processors from this practice. In any event, the current level of commercial stocks is probably more consistent with the inventory required by current dairy product sales.

USDA Stocks, Purchases, and Expenditures

Government stocks increased at about the same rate as commercial stocks, as shown in Table 5. The record total stocks of almost 18 billion pounds is over 16% greater than ending stocks for 1982. Unlike commercial stocks, the biggest buildup, close to 30%, occurred in government stocks of cheese.

The growth in governments stocks parallels the increase in USDA net removals of dairy products under the price support program. For fiscal year 1982-83, net removals totaled a record 16.6 billion pounds, as shown in Table 6. Net expenditures on price support activities, including administrative costs and revenues from sales and assessments, totaled just under $2.6 billion. If revenues under the old assessment program (from the Omnibus Budget Reconciliation Act of 1982) are excluded, the cost would have been $254 million more. Net expenditures on School Lunch and other food assistance programs which involve direct purchases of dairy products totaled $8.4 million, representing a small but steadily increasing share of total expenditures. Expenditures under the Special Milk Program dropped to $20 million in 1983, reflecting the dramatic change in eligibility rules for that program which occurred in 1982.

As a share of production, net removals and government stocks of all dairy products equaled 12-13% of the total in 1983, as shown in Table 7. For American cheese, their share of total production approached 29%. About 32% of the butter produced in 1983 was purchased by the USDA, and USDA stocks at the end of 1983 equaled about 36% of annual butter production in 1983. The numbers for nonfat dry milk are over twice as high. Net removals for 1983 equaled 70% of the total production for that year, and ending government stocks were only 8% short of equaling the total amount of nonfat dry milk produced in 1983.

Table 5. U.S. Ending Stocks of Dairy Products

	Average 1973-1977	1978	1979	1980	1981	1982[e]	1983	1983 as % of 1982
				(million pounds of product)				
Commercial								
American Cheese	357.3	349.1	403.7	422.8	373.8	334.7	404.0	120.7
Other Cheese	66.5	78.4	105.6	99.3	86.6	82.8	95.3	115.1
Butter	27.2	15.2	25.2	36.5	47.3	28.1	36.5	129.9
Nonfat Dry Milk	83.1	40.1	92.6	85.0	86.7	93.7	72.7	77.6
Total (M.E.)[c]	4847[d]	4475	5419	5752	5398	4603	5460	118.6
Government								
American Cheese[a]	13.1	29.7	2.8	168.6	515.4	646.8	837.6	129.5
Butter[b]	42.4	191.8	152.6	268.2	381.9	438.7	473.3	107.9
Nonfat Dry Milk	316.9	545.0	392.7	501.7	803.0	1188.7	1394.4	117.3
Total (M.E.)[c]	1007[d]	4254	3180	7207	12,980	15,451	17,955	116.2

Source: Dairy Outlook and Situation, U.S. Department of Agriculture; 1983 estimated by Andrew Novakovic from available USDA data.

[a] Includes process cheese.
[b] Includes butter equivalent of butteroil and ghee.
[c] Includes manufactured products for which current monthly series are available (excludes nonfat dry milk, cream, and bulk milk), computed on fat-solids basis.
[d] Estimates used for 1973 and 1974.
[e] Preliminary.

Table 6. USDA Removals of and Net Expenditures on Dairy Products by Fiscal Year[a]

	1978-79	1979-80	1980-81	1981-82	1982-83	1983 as % of 1982
Removals (million pounds)						
Butter	46.2	233.0	382.1	381.9	410.3	107.4
Cheddar Cheese	12.1	335.6	532.1	598.6	820.3	137.0
Nonfat Dry Milk	202.5	592.2	786.9	953.6	1047.2	109.8
Evaporated Milk	17.4	15.4	20.2	19.5	22.4	114.9
TOTAL (M.E., fat basis)	1,100.0	8,200.0	12,700.0	13,800.0	16,600.0	120.3
Net Expenditures (million dollars)						
Support Purchases	244.3	1,274.0	1,967.2	2,231.3	2592.0[b]	116.2
School Lunch and Food Aid	6.3	5.8	7.5	7.9	8.4	106.3
Total	250.6	1279.8	1983.7	2239.2	2600.4	116.1
Special Milk	134.1	156.8	118.8	28.1	20.1	71.5
TOTAL	384.7	1,436.6	2,093.5	2,267.3	2620.5	115.6

Source: Dairy Outlook and Situation, U.S. Department of Agriculture, December issue.

[a] Fiscal year begins October 1.
[b] Include $253.8 million in revenue from assessments.

Table 7. USDA Net Removals and Ending Government Stocks as a Percentage of Production of American Cheese, Butter, Nonfat Dry Milk and All Milk

	Average 1973-1977	1978	1979	1980	1981	1982	1983
				(percentage)			
American Cheese							
Net Removals	3.3	1.9	1.8	14.7	21.3	23.4	28.6
Stocks	0.7	1.4	0.1	7.1	19.5	23.5	28.7
Butter							
Net Removals	9.0	11.3	8.3	22.4	28.6	30.4	31.6
Stocks	4.1	19.3	15.5	23.4	31.1	35.7	36.2
Nonfat Dry Milk							
Net Removals	25.6	31.0	28.1	54.6	64.8	67.7	70.1
Stocks	31.0	59.2	43.2	43.2	61.1	84.8	92.2
All Milk (M.E., fats basis)							
Net Removals	2.2[a]	2.3	1.7	6.8	9.7	10.5	12.1
Stocks	1.1[a]	3.5	2.6	5.6	9.8	11.4	12.9

Source: Dairy Outlook and Situation, U.S. Department of Agriculture.

[a]Average for 1975 to 1977.

Prices

With a basically constant support price through 1983, milk and dairy product prices changed very little from 1982 levels, as shown in Table 8. Excluding assessments which averaged about 48 cents per cwt. on an annual basis, farm prices declined about 3 cents. Wholesale prices for supported dairy products were virtually unchanged from year earlier levels. Retail prices for all dairy products rose just over 1%, almost half the rate of increase in food prices and a third the increase in all consumer prices.

The National Economic Outlook

A summary of the U.S. supply and utilization of milk for the last 10 years and a projection for 1984 is presented in Table 9. There are two principal questions surrounding the outlook: What will happen to production as a result of the Milk Diversion Program and cut in supports? and How much will consumption increase as a result of favorable prices and the new promotion program?

Boynton and Novakovic (1984b) estimate that participants in the Milk Diversion Program will reduce their marketings about six billion pounds relative to their 1983 marketings. Assuming that the nonparticipants increase their production two to three percent, primarily due to increases in production per cow, this would imply a reduction in milk production of about 3.5 billion pounds in 1984 for a total of 136.5 billion pounds. Assuming an increase in farm use as a result of the MDP, marketings are estimated to fall four billion pounds and total 133.8 billion pounds.

Although moderate, perhaps decreasing, retail prices and a promotion program that will take effect around mid-year should spur sales, heavy donations of manufactured dairy products from USDA stocks may hold down those gains. Assuming a healthy one percent growth in commercial disappearance, a small increase in commercial stocks, and more nearly normal import levels, it is estimated that net removals will be about 12 billion pounds in 1984, down 28% from 1983. The cost of these purchases and of the diversion payments, and the revenue from the 50¢ assessment imply net government expenditures for 1984 of around two billion dollars. Farm prices are assumed to average about 30¢ or 2.3% lower than last year; this assumes some increase in prices later in the Fall when supplies become a bit more tight and as a result of slightly higher Class I utilization in federal order markets.

Thus with production, net removals and government costs falling and consumption rising it seems that 1984 dairy markets are finally going to move towards a better balance between supply and demand. Many still hope for even greater adjustments in 1984. Although that is possible, it appears to be quite clear that the problem will surely not be solved in 1984. Even more important than this is what will happen in 1985 after the Milk Diversion Program expires. Many factors will affect production in the next 12 to 24 months, but it is certain that some, perhaps most, of the production diverted under the Milk Diversion Program will come back in 1985. Whether the production of retiring farmers will offset that comeback remains to be seen.

Table 8. U.S. Farm Prices for Milk, CCC Purchase, Wholesale, and Retail Prices for Cheese, Butter, and Nonfat Dry Milk and Selected Retail Price Indices

	1978	1979	1980	1981	1982[c]	1983[a]	1983 as % of 1982
Farm Milk ($/cwt., ave. fat):							
All Milk	10.58	12.03	13.05	13.76	13.59	13.56[d]	99.8
Grade A	10.79	12.23	13.21	13.94	13.73	13.72[d]	99.9
Grade B	9.65	11.09	12.05	12.73	12.66	12.62[d]	99.7
Milk/Feed Ratio	1.53	1.55	1.48	1.44	1.53	1.45[d]	94.8
Cheese (¢/lb.):							
CCC Purchase, Natural Cheddar, Grade A or higher, blocks[a]	102.6	115.5	132.0	140.0	140.0	139.6	99.7
Wholesale, American Cheddar (40 pound blocks), f.o.b. Wisconsin Assembly Points	107.1	123.8	133.0	139.4	138.3	138.3	100.0
Retail, American (1/2 lb. pieces)	191.2	214.0	235.0	255.7	261.0	265.0	101.5
Butter (¢/lb.):							
CCC Purchase, Grade A or higher, Chicago[a]	106.4	121.5	140.2	149.0	149.0	148.6	99.7
Wholesale, Grade A, Chicago (1 lb.)	109.8	122.4	139.3	148.0	147.7	147.3	99.7
Retail, Grade AA, sticks (1 lb.)	149.1	168.3	187.8	199.3	204.6	207.0	101.2
Nonfat Dry Milk (¢/lb.):[b]							
CCC Purchase, Spray Process, Extra Grade, Unfortified[a]	70.9	78.9	89.1	94.0	94.0	93.7	99.7
Wholesale, Chicago (1 lb.)	71.6	79.5	88.6	93.6	93.5	93.5	100.0
Retail Price Indices (1967=100.0):							
Fluid Whole Milk	171.7	191.4	208.4	220.2	221.4	222.9	100.7
All Dairy Products	185.6	207.1	227.4	243.6	247.0	250.0	101.2
All Food	211.4	234.5	254.6	274.6	285.7	291.6	102.1
All Consumer Prices	195.4	217.4	246.8	272.3	289.1	289.1	103.1

Source: Dairy Outlook and Situation, U.S. Department of Agriculture.

[a] Simple annual average of announced support price.
[b] There is no retail price information for nonfat dry milk.
[c] Estimated.
[d] Excludes assessments averaging 48¢/cwt. for the year.

Table 9. U.S. Milk Supply, Utilization, and Prices

	1973-1977	1978	1979	1980	1981	1982[a]	1983[b]	1984[c]	1984 as % of 1983
					(billion pounds)				
Supply									
Production	117.9	121.5	123.4	128.5	133.0	135.8	140.0	136.5	97.5
Farm Use	3.2	2.7	2.5	2.3	2.3	2.3	2.2	2.7	122.7
Marketings	114.7	118.8	120.9	126.2	130.7	133.4	137.8	133.8	97.1
Beginning Commercial Stocks	4.6	4.9	4.5	5.4	5.8	5.4	4.6	5.4	117.4
Imports	2.5	2.3	2.3	2.1	2.3	2.5	2.7	2.5	92.6
TOTAL SUPPLY	121.7	126.0	127.7	133.7	138.8	141.3	145.1	141.7	97.7
Utilization									
Commercial Disappearance	114.3	118.8	120.2	119.2	120.5	122.4	122.9	124.1	101.0
Ending Commercial Stocks	4.8	4.5	5.4	5.8	5.4	4.6	5.4	5.5	101.9
Net Government Removals	2.6	2.7	2.1	8.8	12.9	14.3	16.8	12.1	72.0
TOTAL USE	121.7	126.0	127.7	133.7	138.8	141.3	145.1	141.7	97.7
Prices					(dollars per hundredweight)				
All Farm Milk	8.74[d]	10.58	12.03	13.05	13.76	13.59	13.56[e]	13.25[f]	97.7

Source: Dairy Outlook and Situation, U.S. Department of Agriculture.

[a] Revised.
[b] Estimated by Andrew Novakovic from available USDA data.
[c] Estimated by Andrew Novakovic.
[d] Weighted average.
[e] Excludes assessments averaging 48¢/cwt. for the year.
[f] Excludes 50¢/cwt. assessment and promotion deduction averaging 6½¢/cwt. for the year.

Policy Issues in 1983

Dairy price supports continued to occupy center stage in the dairy policy theater in 1983. Through the first 11 months of 1983, dairy policy was set under the Omnibus Budget Reconciliation Act of 1982, which froze the support price at $13.10 and authorized two 50-cent per cwt. direct assessments on the amount of milk marketed by dairy farmers. The first assessment was nonrefundable; the second assessment could be refunded to dairy farmers who reduced their milk marketings at least 8.4% below their base marketings. The Secretary attempted to collect the first assessment in December 1982. This action was held up in federal court pending a review of the administrative procedures followed by the Secretary in implementing the assessment. After numerous and repeated efforts by producer groups to delay or halt collection of the assessment, the legal path was eventually cleared and collection of the first 50¢-assessment began in mid-April, 1983. On September 1, collection of the second 50¢-assessment began.

Even after the legal issues were decided, the primary priority of virtually every milk producer organization throughout 1983 seemed to be the repeal of the assessment program. As had been the case in 1982, there was anything but a consensus as to what the alternative to the assessment program should be. The Administration strongly supported a straightforward cut in the support price with considerable discretionary authority for the Secretary of Agriculture to make future changes as needed. Although they did not commit themselves to a particular level, it seemed that they would most likely reduce the support price from $13.10 to $12.00 or $11.50. For the most part the Senate, milk processor organizations, and many general farm organizations supported the price cutting approach. Even some dairy cooperatives in the Southeast and West endorsed this strategy.

Countering this approach, the National Milk Producers Federation and most dairy cooperatives pressed for a system of price incentives that would penalize those who sold more than a particular base level and reward those who sold less. Other supply management type schemes that involved price incentives and bases were also proposed. For the most part, these proposals were favorably received in the House of Representatives.

The stalemate between these two groups persisted until late 1983. In an effort to draw elements of competing proposals together, members of the House proposed legislation in late Spring that came to be known as the "compromise bill." This proposal called for a price cut, an assessment, a national promotion program, and payments to producers who decreased their marketings below a base. Initially this compromise effort drew little support as all the major parties continued to press their particular approach. The House compromise languished through the Summer and early Fall until November when, in a surprise move, the Senate passed legislation very similar to the House bill. After considerable political maneuvering, the President signed the Dairy Production Stabilization Act of 1983 (DPSA) into law on November 29.

Under the DPSA, the support price was reduced 50¢, to $12.60 on December 1, at which time the prior one-dollar assessment was replaced by

a nonrefundable assessment of 50¢. The act further authorized a Milk Diversion Program (MDP) that provided for payments of $10 per cwt. on the amount by which producers reduced their marketings below their base. Producers must sell at least 5% less than their base to qualify for a payment and the maximum payment is for reductions of 30%. The program covers milk sold between January 1, 1984 and March 31, 1985. Dairy farmers had until February 29, 1984 to sign up for this voluntary program. Further details on the DPSA can be obtained in the papers by Novakovic (1983) and Boynton and Novakovic (1984a).

Other policy issues briefly drew attention from price supports, but often these were related to support policy. Continued efforts were made to increase the level of nonfat solids in fluid milk product identity standards. Several states, including Wisconsin and Illinois, also debated legislation that would unilaterally amend these identity standards. For the most part, it appears that the states will wait for a change in federal standards; however, there also appears to be little interest on the part of the government to make such changes. For further information on this issue, the reader may wish to examine the paper by Boynton.

Issues related to intra- and inter-order Class I price differentials lurked in the backdrop throughout 1983. On the one hand, many cooperatives have been pushing for increases in Class I differentials that would better reflect bulk milk hauling costs from Wisconsin. Similarly, some cooperatives have sought and temporarily received special transportation credits or price allowances for handling seasonal surpluses within an order. On the other hand, some consumer groups continue to push for a decrease in Class I differentials to reflect the lower cost of reconstituted beverage milk products. The Supreme Court is scheduled to hear a case in Spring 1984 that may decide whether consumers can successfully petition the Secretary of Agriculture to convene a hearing on the issue of reconstituted milk pricing in federal orders. For more information on these classified pricing issues, see the reports by the USDA, Novakovic (1982) and Novakovic and Story.

Prospects for Policy Changes

The quadrennial review of agricultural policy and new agricultural legislation is slated for 1985. Already a debate has begun over the components of that bill. Much of the debate that has taken place over the last two years will continue. Many are fearful that Congress will take drastic measures, perhaps even eliminate price supports, as a result of the lower than expected sign-up under the MDP. At this point there is no indication that Congress will eliminate the support program nor that they are particularly eager to make dramatic changes.

Among the most likely changes are the following. First, the old parity formula is assuredly assigned to history; however an alternative may be specified and take parity's place as a standard by which to set support prices. Perhaps the prime contender for a new standard is simply a revision of the parity formula to better reflect prices relevant to dairy farming--the so-called dairy parity approach. Other possibilities include a cost of production measure or three- to five-year moving

averages of farm milk prices. Key concerns for any price standards will be that it be flexible, perhaps within upper and lower bounds, and that it reflect changes in productivity and supply and demand conditions.

With respect to the latter, a second potential component of 1985 agricultural, legislation may well be a trigger mechanism that automatically signals an increase (decrease) in the support price when relative deficits (surpluses) exist or are expected. A third item may also be related to a trigger mechanism, and that would be a farmer assessment to defray government costs when they reach a certain level.

These first two items have been discussed for several years and would not represent a dramatic policy shift. If a more substantive change occurs it is likely to reflect a concern that the current program provides too great a benefit to large producers. This concern could lead to proposals for lower support prices with supplemental income subsidies to smaller farmers, along the lines of the target price-loan rate programs for cash grain producers.

The pressures to change prices under federal orders will continue to build. Indications of a major cut in price supports will likely be countered by proposals to raise Class I differentials. On the other hand, consumers will increasingly push for lower Class I prices. Whether Congress will directly intervene in what is normally an administrative affair and mandate changes in federal order prices does not yet seem likely but is increasingly possible.

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