
Dairy Policy Brief #1: Milk Price Support Program

What is the Program?

The Milk Price Support Program (MPSP) has been a fixture of U.S. dairy policy since 1949. It is a **market intervention** program, meaning that the government offers to purchase non-perishable dairy products (butter, cheese, and nonfat dry milk) from manufacturers at specified (intervention) prices. The program is dormant when market prices are above intervention prices. It is activated when the overall milk supply exceeds demand, causing excess milk to be diverted into production of nonperishable products and lowering their prices. The product intervention prices are linked to a price support level for manufacturing milk that is set by Congress. The milk support price is currently \$9.90 per hundredweight for milk of average butterfat content; \$9.80 for milk testing 3.5 percent butterfat.

What are the issues?

- **Ineffective price floor.** The MPSP has not always been successful in keeping milk price above the support level. Because of non-standard product, packaging, and payment specifications, it costs more to sell products to the government than to commercial buyers. So market prices for the products purchased under the MPSP sometimes fall below intervention prices, causing milk prices to fall below support. This has led to a call by many dairy groups to raise the intervention prices. Others have proposed that the milk price safety net be made more solid by flooring the product prices used in federal milk marketing order pricing formulas at the intervention prices or replacing the MPSP with direct payments to farmers when market prices fall below a specified level.
- **Incompatibility with world trade liberalization.** The MPSP is a big contributor to the U.S. **aggregate measure of support** (AMS), which the World Trade Organization (WTO) uses to gauge trade-distorting domestic agricultural subsidies. The U.S. AMS is limited under our commitments to the WTO and the limit will very likely be reduced as part of ongoing negotiations. Major changes in the MPSP—or termination—may be necessary to conform to a new WTO agreement.
- **Market price distortions.** The MPSP has affected milk utilization by setting a price floor for some commodities but not for others. The best example of this market distortion relates to nonfat dry milk, which is a source of dairy protein in many food applications. There is a large U.S. market for other dairy-based proteins, notably milk protein concentrate (MPC) and casein. Nearly all MPC and casein used in the U.S. comes from imports. Because nonfat dry milk is purchased under the MPSP, it is more profitable and less risky to produce nonfat dry milk than other forms of dairy proteins.
- **Difficulty in adjusting butter and nonfat dry milk prices.** The MPSP has, at times, resulted in large government purchases of nonfat dry milk even though the market price for milk was well above the support price. In setting butter and nonfat dry milk purchase prices, USDA assumes that the two products are produced jointly. Therefore, the sum of the net (of assumed manufacturing costs) value of butter and nonfat dry milk contained in a hundredweight of milk must equal the support price for milk. The Secretary of Agriculture is authorized to adjust relative prices of butter and nonfat dry milk (called a **butter-powder tilt**) twice a year to minimize purchase costs and prevent a build-up of stocks of either product. But political pressures have limited the ability of the Secretary to make timely price adjustments.