
Dairy Policy Brief #4: Voluntary Supply Management

What is the program?

In the mid-1980s, Congress authorized two major voluntary dairy supply management programs, both funded in part through dairy farmer assessments. Under the 1984-85 Milk Diversion Program, dairy farmers who reduced their milk marketings 5 to 30 percent from a base level were paid \$10 per hundredweight on the reduced marketings. This was followed in 1987 by the Dairy Termination Program (Whole Herd Buyout), under which the government accepted bids from dairy farmers who were willing to slaughter all female dairy cattle and remain out of the dairy business for at least 5 years. The Milk Diversion Program cut milk production sharply in 1985, but had no long-term effect. The Whole herd buyout was more successful in moderating production trends, but the induced slaughter of dairy cows negatively affected beef markets, raising the ire of cattle producers.

The objective of these government-sponsored voluntary supply management programs was to enhance and stabilize farm-level milk prices by controlling the amount of milk marketed. Recently, an industry-sponsored voluntary milk supply management program was initiated to achieve the same objectives by using some of the same techniques. The program, labeled CWT for Cooperatives Working Together, was designed and is managed by the National Milk Producers Federation, a trade association of dairy cooperatives. Members of participating dairy cooperatives and, if they choose, independent dairy farmers fund the program through an assessment of ten cents per hundredweight of milk marketed. Currently, CWT has two methods of supply management: herd retirement and dairy export incentives. Under herd retirement, bids are accepted from dairy farmers who are willing to slaughter their milking herd. Export incentives provide participating cooperatives subsidies on exports of butter and cheese.

What are the issues?

- **Adequate funding and participation.** Government supply management programs are funded from mandatory producer assessments and/or federal appropriations. But funding for industry-sponsored programs like CWT depends on voluntary assessments. At issue is whether participation and the associated funds raised are sufficient to enhance and stabilize farm level milk prices over the long run.
- **Free riders.** Voluntary supply management programs have a potential **free rider** problem—dairy farmers who don't participate in the program still receive any benefits that result from the participation of others. Moreover, to the extent voluntary supply management is successful, some dairy farmers are likely to respond to higher and more stable prices by expanding the size of their dairy herd. This makes it difficult for a voluntary program to be successful over the long run.
- **Buying air.** Voluntary supply management programs run the risk of buying air; for example, paying farmers to get out of the dairy business when they were already planning to retire. But there still may be benefits if the program requires milk cows to be slaughtered rather than sold to another dairy farmer.
- **Export market issues.** The export incentive element of CWT not only moves dairy products from the domestic market, it can also provide valuable export experience for dairy cooperatives. However, since export subsidies are only offered when dairy product prices are depressed, international customers may view participating dairy cooperatives as an unreliable source of dairy products. There is also a question regarding whether CWT export subsidies violate World Trade Organization rules. While they are not government subsidies, some believe they could trigger an objection if they become large enough.