

What is US Dairy Policy and Where is it Headed

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Underlying Conditions and Reasons for Market Intervention

Physical characteristics of milk

Economic or market characteristics

Cultural characteristics

Political conditions

Historical, economic events



prepared by A.M. Novakovic, Cornell University

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Underlying Conditions – Physical Characteristics

Physical characteristics of milk

- **Homogeneous good** – key differences of composition and quality are easy to price, the rest is largely undifferentiated
- **Harvested daily, twice** – need to market frequently, also dairy farmers are busy with production, less time for marketing
- **Perishable** – need to market quickly
- **Bulky** – transportation is expensive
- **Nutrient dense** – milk has a desirable amount and mix of nutrients and micro-nutrients that are conducive to good health AND the major components of milk can be utilized in different proportions in a wide variety of dairy products.

Economic or market characteristics

Cultural characteristics

Historical, economic events

Political conditions



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Urgent marketing

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Underlying Conditions – Market Characteristics

Physical characteristics of milk

Economic or market characteristics

- **Different Risk Profile** - Unlike crop-based agriculture, production or yield risk is relatively low but price and market risk are high
- **High fixed costs and fixed assets** – not easy to switch to other enterprises when milk prices are poor
- **Supply and demand quite inelastic** - susceptible to price instability even with small changes in production or consumption
- **Contraseasonality** – production peaks in the Spring, milk and some manufactured product consumption peaks in the Fall, creating wide seasonal price fluctuations
- **Oligopsony** – farmers tend to be price-takers
- **Usage and demand differences** – the wide variety of dairy products and how and where they are used leads to a wide variety of demand characteristics, including elasticities of demand
- **Technology/Productivity** changes faster than demand

Cultural characteristics

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Historical, economic events



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Asset Fixity

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Underlying Conditions – Cultural and Political

Physical characteristics of milk
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- **Public sympathy for farmers** – historical sympathy is rapidly giving way to suspicions about “industrial” and “big” agriculture. Smaller scale farmers can stand in line.
- **Milk is Good for You** - Dairy products historically regarded as healthful and nutritious and milk is essential for our babies and young children, but this is rapidly changing to concerns about saturated fats, sweeteners or salts in certain products, antibiotics or other unnatural substances, and/or animal products

Political conditions

- **Old:** Dairy farms are everywhere – every Senator and many MCs have dairy farm constituents
- Fixing problems vs. “getting your share”
- **New:** Dairy farming is consolidating – milk production is increasingly concentrating in a handful of states.
- Citizens are increasingly interested in issues beyond food availability and affordability – naturalness, sustainability, animal welfare

Historical, economic events



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Virtuous good

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Novakovic's Policy Creation Formula

Congress creates new laws, which lead to new programs, in accord with 3 key conditions:

1. An event that demands attention
2. A political will to respond to that event
3. The cost of doing something

$$L = (E \times P) / C$$

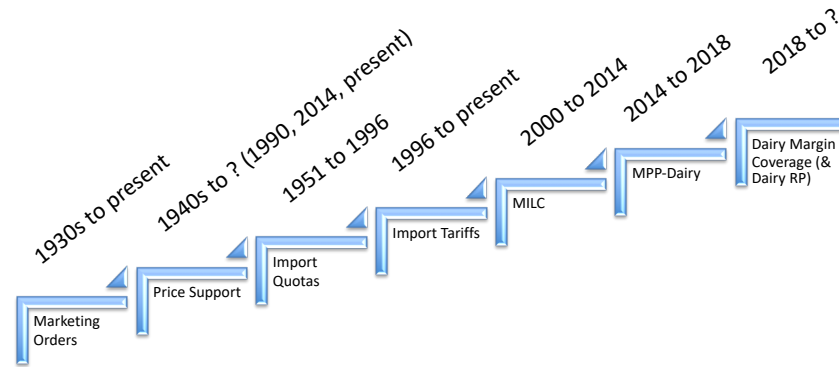
Note: This may or may not involve a new or revised policy



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Major Dairy Pricing/Marketing Regulations



Each step in the development (or dissolution) of federal dairy programs began with an economic event or condition that led to industry interest in a government solution. The actual solution typically arrived in conjunction with a galvanizing economic event and/or facilitating political climate.



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Policy vs. Program

*“**Programs** are short-term interventions that create temporary improvements in the wake of challenges. **Policies**, on the other hand, are covenants we collectively choose to live by, as articulated in legislation and regulation. They inform our socially accepted mores and ethics.”*

*“A **policy** is a document that outlines what a government is going to do and what it can achieve for the society as a whole. A **law**, on the other hand, is a system of rules passed by the government.”*

My words:

A policy is a statement by an authoritative body concerning how they feel about an outcome or goal or an objective to be achieved, e.g., It is the policy of the U.S. to sustain a system of farms owned, managed and operated by families.

A program is a set of actions, authorized by a law if it is a government program, that ostensibly aims to achieve policy goals. For example, Dairy Margin Coverage is a USDA program that provides income subsidies in time of market stress. The DMC skews in favor of smaller scale farms.



AEM 3040 - Dairy Markets and Policy Seminar - prepared by A.M. Novakovic

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So, What is US Dairy Policy?

Policy	Program
Preserve Family Farms	?
Stabilize Milk Price	?
Stabilize Farm Income	?
Ensure a Safe Food Supply	?
Ensure High Quality Food	?
Ensure Cheap Food for Consumers	?
Ensure Soil, Water and Air Quality	?
Slow or Reduce Climate Change	?
Ensure safety of workers	?
Ensure economic rights of paid workers	?
Protect farm animals from abuse	?
Encourage Free Trade in Ag and Food	?



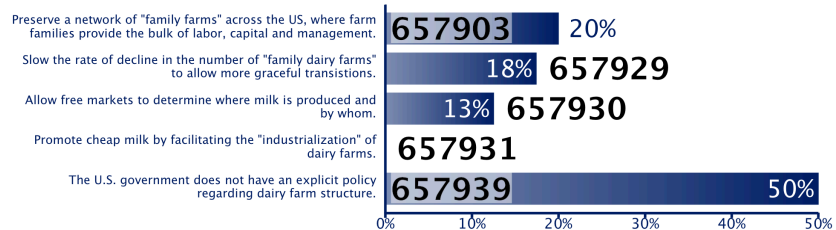
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The following poll was taken live with attendees. This reflects the first 40 responses.

What statement best corresponds to what you believe is US Policy regarding the structure of US dairy farms (size, composition, ownership, distribution)

i Poll is full and no longer accepting responses



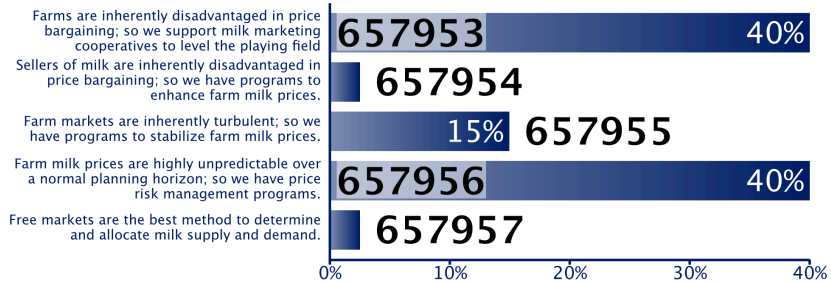
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The following poll was taken live with attendees. This reflects the first 40 responses.

Which statement(s) describes what you believe to be US Policy regarding farm milk prices (check as many as pertain)

ⓘ Poll is full and no longer accepting responses



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What can we infer from the poll results?

The conclusion that I draw from poll results is that there is not a consensus about basic dairy policy even among people who have an above average degree of expertise in the US dairy industry and federal programs that regulate dairy markets.

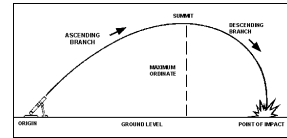
While these people are familiar with dairy programs and can and do talk about their merits and effects, any discussion about whether these programs achieve their intended goals is shaped by the speaker's rather subjective assessment of what those goals are – not a clearly articulated and well understood policy.



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The Trajectory of US Dairy Policy and Programs



- Late 1800s – industry efforts to improve farm milk prices and market outcomes
- 1920s – support and nurture cooperative marketing
- 1930s – beginning of Federal Orders, it wasn't until the 1960s that half the US milk was regulated
- 1940s – support milk prices (enhance and stabilize)
- 1950s – protect against imports
- 1980s & 90s – unravel price supports and import quotas, “reformed” federal orders
- 2000s - introduce income subsidies
- 2010s – income subsidies and insurance reign supreme, price regulation.....
- 2020s and beyond - ?



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Do the conditions that gave rise to “urgent marketing” persist or will they in the near term?

Do farmers suffer from an imbalance in market power?

Are farmers the victim of market turbulence?

Is milk good?

Is dairying good?

Have cultural and or political conditions changed or are they on the cusp of changing?



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Ideology and Values – A matter of age or generation?

“Not to be a republican at twenty is proof of want of heart; to be one at thirty is proof of want of head.”

F. Guizot, 19th Century French historian and philosopher, referring to the French Republic created after the overthrow of the monarchy

“A man who has not been a socialist before 25 has no heart. If he remains one after 25 he has no head.”

King Oscar II of Sweden, ca. 1920

Age cohorts give researchers a tool to analyze changes in views over time; they can provide a way to understand how different formative experiences interact with the life-cycle and aging process to shape people's view of the world. **While younger and older adults may differ in their views at a given moment, age cohorts allow researchers to go further** and examine how today's older adults felt about a given issue when they themselves were young, as well as to describe how the trajectory of views might differ across age cohorts.



Pew Research Foundation

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Generations Attitudes and Beliefs Regarding Public Policy (no, it's not about the Green New Deal or Millennial Socialism)

The Generations Defined

The Millennial Generation

Born: After 1980
Age of adults in 2015: 18 to 34*
Share of adult population: 30%

Generation X

Born: 1965 to 1980
Age in 2015: 35 to 50
Share of adult population: 27%

The Baby Boom Generation

Born: 1946 to 1964
Age in 2015: 51 to 69
Share of adult population: 30%

The Silent Generation

Born: 1928 to 1945
Age in 2015: 70 to 87
Share of adult population: 11%

The Greatest Generation

Born: Before 1928
Age in 2015: 88 to 100
Share of adult population: 2%

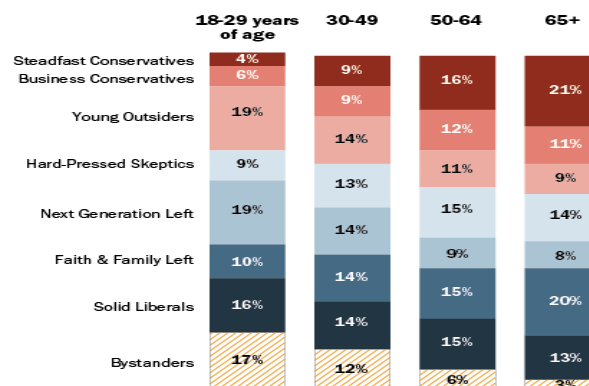
* The youngest Millennials are in their teens. No chronological end point has been set for this group.

Source: Pew Research Center analysis of Census Bureau population projections for 2015.

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Political Typologies Shift with Age

Percent of Americans in each age bracket who are...



Source: 2014 Political Typology
PEW RESEARCH CENTER

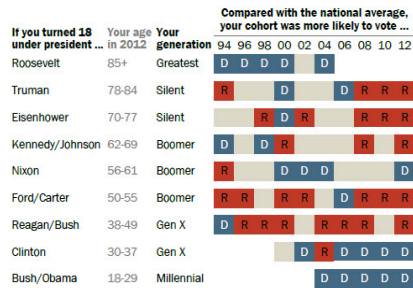


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Period Effects vs. Age

Presidential Legacies? How Generations Have Voted



Tan boxes represent years in which an age group's vote was roughly equal to the national average. Data from some years not available for oldest and youngest generations due to small sample sizes. Based on likely voters in pre-election polls conducted in each election year. Your Generation shows where the majority of that age group is traditionally categorized (e.g., most people who turned 18 under Clinton are Gen X, though the very youngest are classified as Millennials).

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What we experience at various points in our life shape attitudes.

This very much includes defining cultural, political and economic events.

Consider Baby Boomers:

- sheltered as children
- Killed in Vietnam
- Leading a cultural revolution
- Rising with the inflation of national deficits and OPEC driven inflation



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As Baby Boomers retire to the Background, What Will be the Driving Values of the Next Generation of Political and Business Leaders

Generation	Birth Years	Famous Members	Era in which Members Came of Age	Archetype
G.I.	1901–1924	John Kennedy, Katharine Hepburn, Jackie Robinson, James Watson	Depression & World War II	Hero
Silent	1925–1942	Martin Luther King, Jr., Sandra Day O'Connor, John Lennon, Roald Hoffman	American High	Artist
Boom	1943–1960	Bill Gates, Stephen King, Bill Clinton, Richard Thaler, Stevie Wonder	Consciousness Revolution	Prophet
Generation X	1961–1981	Barack Obama, Sarah Palin, Shania Twain, Elon Musk	Long Boom & Culture Wars	Nomad
Millennial	1982–2004	Mark Zuckerberg, Taylor Swift, Katie Bouman, Alexandria Ocasio-Cortez	Global Financial Crisis	Hero
Homelanders	2005- ?	McKenna Grace, Pierce Gagnon	(a childhood of public violence)	Artist



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Changes in Policy (not Programs)

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The Values, Beliefs and Life
Experiences of the Next
Generation of Business and
Political leaders will shape
what we as a society want to
do, what we believe is
appropriate to do.

With all the attention on
Millennials, do not forget
that next in line is Gen X.



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