

Diversion played right into dairyman's hands

UNIVERSITY PARK — Many Pennsylvania dairy farmers will be able to qualify for payment under the Dairy Diversion Program without cutting production or making any changes

in their operations, says Jack Kirkland, Penn State Extension agricultural economist.

"Pennsylvania dairy farmers have proven that you can have your cake and eat it too, probably much to the discomfort of government policy makers," he said.

The diversion program pays farmers \$10 for every 12 gallons that they reduce production by over a 15 month period. It was designed to help eliminate large surpluses of milk which are sold back to the government in order to make sure dairymen's milk is priced at support levels.

The program is run by voluntary sign-up by the farmer. Any farmer who wanted to participate, signed a contract with the government to reduce milk production by a specified percentage below the farmer's base milk production.

The base figure is determined by a historical base period of milk sales, either milk sales for 1982 or an average of 1981 and 1982 milk sales.

But since many Pennsylvania dairy farmers already produced less milk in 1983 than their base figure, they will not have to make any further reductions to qualify for the payments.

"The program will pay many Pennsylvania dairy farmers for doing something they have already done," Kirkland says. "But the program is self-financing and in effect, the dairymen are paying themselves. Income is just being shifted through the workings of the program from one group of dairymen to another without any direct cost to the consumer."

Farmers across the state will receive about \$25 million in payments. Money for payment in the program comes from an assessment of 50-cents for every 12 gallons of milk sold by all

dairymen.

Reduction in the state will be much less than the preliminary results of the program suggested, Kirkland says.

After looking at the sign-up for the program, government officials estimated that Pennsylvania farmers would reduce production by 254 million pounds. But because many do not have to reduce to meet their base figure, farmers in the state will only reduce production by about 90 million pounds. This is less than a 1 percent reduction from 1983 levels of production.

One gallon is equal to 8.6 pounds. This smaller reduction, along with the fact that many dairymen did not sign up to participate in the program and might continue to increase production, means that the state milk production may increase a small amount this year.

Several factors may have influenced farmers' decision not to participate. Many farmers have long-range goals that might not be compatible with participation in the program. Since payments are made only quarterly, others may not have participated because of cash flow needs.

Higher feed prices and lower milk prices also cut into farmers' profits, causing many to increase production in hopes of increasing or even maintaining net income levels.

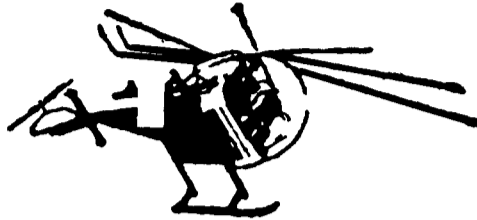
A large number of replacement heifers will also come into milking production next year, meaning there will probably be more cows to produce milk.

"One important factor often overlooked which adds to milk production is that dairying is many farmers' best alternative," Kirkland says. "They will continue to try to weather this stormy period and continue to produce milk."

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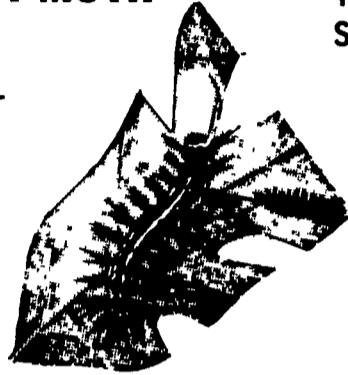


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