Alternative Voluntary Supply Management Policies

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farmers minimum prices for fluid eligible milk depending upon how the milk is used. The proceeds are then pooled in the market and farmers receive a uniform or blend price. The following are some of the voluntary programs that have been proposed to operate in conjunction with the FMMOP and PSP.

Class I Base Plans: Class I base plans were authorized for Federal Milk Marketing Orders in 1965. These programs are sometimes called two-tiered pricing programs because farmers receive different class prices (rather than a blend price) on fluid base and over fluid base milk marketings.

If adopted in a marketing order, all farmers are assigned an annual Class I base, which is equal to the market percentage of Class I sales multiplied by their base marketings. All milk sold up to one's base receives the Class I price and all milk sold over this base receives the Class II price.

Farmers have incentives to reduce the amount of milk they sell under this program because of the weighted average under this program because the weighted average price becomes higher the more one reduces milk marketings.

Since the 1965 legislation allowed Class I base to be bought and sold, farmers wishing to expand or increase the average price they received could purchase additional quotas from other farmers. In the 1981 farm bill, authorization for Class I plans was discontinued because of a lack of interest in the program by dairy farmers (only two marketing orders, Puget Sound and Georgia, had approved them).

Voluntary Quota Program: Although never enacted, VQP's were seriously considered in the early 1960's as a form of supply management. Under this program, producers would be assigned a base, similar to mandatory quotas, but would not be directly penalized if they chose to produce in excess of their base.

Instead, economic incentives would be offered to farmers to cut back production by guaranteeing them a higher price on a percent of their marketings if they stay within their base. The cost of the program would presumably be offset by a reduction in the support price for milk. As a result, prices would fall somewhat for producers not participating in the program due to the reduction in the support price.

This program is quite similar to the Deficiency Payment Program for wheat and corn, which provides income payments to farmers in return for reducing plantings by a specified percent below their acreage bases. One reason why this program was never enacted was the high budgetary costs predicted for the VQP.

Milk Diversion Program: The 1984-85 MDP offered direct payments to those producers who agreed to reduce their marketings from 5 percent to 30 percent below their established base. In return for their reductions, participants were paid $10 per hundredweight on all diverted milk. Participants had the option of reducing milk marketings by cow culling, decreasing cow numbers, feeding less, or increasing the farm use of milk.

Because it is not very difficult for a participant in such programs to increase production in a short period of time after the program expires, supplies are likely to rebound almost immediately after the program is terminated. This is what happened in 1985, when the MDP expired.

Whole Herd Buyout Program: The 1986 program provides for payments to farmers who voluntarily agree to cease producing milk for five years.

Under the Dairy Termination Program, which it is formally called, farmers were invited to submit bids on how much the government would have to pay them to quit producing milk over this five-year period and the government either accepted or rejected each producer's bid. If a farmer's bid was accepted, he or she was required to dispose of all dairy cattle by export or slaughter and remain out of dairying for five years

WHBPs are probably more effective in reducing production than MDPs because participants have to completely stop producing milk. Unlike MDPs, the problem of a swift rebound in production after the WHBP expires is reduced because it is difficult and costly to return to milk production after being out of the business for five years.

When production gets out of line with demand, the use of voluntary supply management programs can be an effective way to adjust milk supplies. Recent U.S. experiences with the MDP and the DTP have shown that this form of supply management has been able to reduce production relative to what it would have been under no program.