Dairy Industry Faces Supply Adjustment

COLLEGE PARK, Md. — Milk producers and building contractors might seem like strange partners, but they have been traveling parallel paths through the businesses jungle for the past quarter-century or more, according to John W. Wysong, a Maryland extension service agricultural economics specialist.

Wysong is with the cooperative extension service at Maryland Institute for Agriculture and Natural Resources (MIANR), which is one of three research and public service institutions of the University of Maryland System.

According to two scientific papers authored by the economist, both dairymen and builders face a similar problem — oversupply, lower demand for their products.

While dairy farmers find themselves facing price-depressing milk surpluses, commercial builders and developers have produced an oversupply of office space and shopping centers.

Both situations can be attributed in part to modern technology, disappointing consumer demand and the current economic recession.

Other parallels between dairymen and builders also exist, Dr. Wysong recently said.

While dairy farmers have depended partly on federal government price supports, builders were encouraged by depreciation allowances, tax write-offs and liberal bank lending policies.

Dairy farmers also have benefited from substitution of capital for labor and fairly favorable feed grain prices.

In a recent study, Wysong noted that on a typical U.S. dairy farm, from 1935 to 1939, it took three full-time workers to handle the operation of a 30-cow herd.

By 1991, a three-person team could handle 150 cows. In addition, milk production per cow by 1991 far exceeded average production per cow in the pre-World War II era.

For more than 40 years a dramatic 83-percent drop in labor and management hours per cow and a tripling of average milk output per cow have been major factors in creating excess farm laborers and forcing them to join the non-farm work force.

Wysong said that trend slowed in the 1970s and 1980s when off-farm employment opportunities became tight — particularly in the Lake States and the Northeast.

Even in a drought year like 1991, Maryland's milk production for August was up 3 percent from a year ago, and Pennsylvania's production was virtually unchanged. Meanwhile, the nation's milk output declined 1.6 percent.

The federal government's whole-herd dairy buyout program of 1986-87 cut the nation's milk cow numbers to less than 10 million head — a reduction of about one million cows from the previous level.

It also released additional labor to pursue non-farm employment opportunities.

As many persons predicted, increased productivity per cow soon erased the expected milk production drop brought on by the buyout program and its reduction in milk cow numbers.

Repeating the release of additional farm laborers and managers to the non-farm labor pool in today's recessionary economic climate appears to rule out the possibility for another herd buyout program anytime soon.

Wysong also noted in his study that the national average milk production per cow appears likely to average close to 15,000 pounds of milk per cow when statistics for 1991 are released.

Even without adoption of bovine growth hormone, the average output per cow probably will increase another 3,000 pounds during the 1990s. This could offset a decline of two million dairy cows in the U.S. milk herd.

Here's another troubling statistic for the dairy world:

Total U.S. population of 132 million persons in the 1940 Census had expanded to nearly 250 million persons by 1990. But the decline in per capita milk consumption has nearly offset the increased production that this increase of 118 million persons would have been expected to require.

Things changed so dramatically in the nation's dairy industry during the mid-1970s, Wysong said, that economic projections based on earlier trends are no longer valid.

The 1990 farm bill has placed a floor of $10.10 as a support price for manufacturing milk. Local blend prices range upward from this level, depending on Class I utilization (fresh milk consumption) and the Minnesota-Wisconsin basic manufacturing milk price.

The federal government's current budget deficit reduction program has established tight limits which threaten continuation of the current economic crunch for dairy farmers.