Strategies For A Too-Low Milk Price

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NEWARK, Del. — Of course, the price of milk is too low.

Who can argue that current milk production costs, even without factoring in appreciation of assets and reasonable manager compensation, is equal to the farmgate payment for milk?

No bank or investment company could continue to operate under such conditions, yet dairy farmers stay in business by tightening their belts and worrying.

I do not criticize, but I have to ask — what else are you doing about this "challenge" to your livelihood?

You are not alone — this situation is the same worldwide.

I grew up on a small diversified farm, which made a fair living milking between six to eight cows and harvesting many different crops.

Now in Europe, farmers, just where I was, are being told by Common Market officials that the "dairy farm of the future" will have at least 60 cows!

What a challenge to these small farmers, many of whom will disappear within a generation under such a policy. Yet this turn of events was inevitable. We have outsmarted ourselves with research-based progress that often exceeds the demands of the consumer population.

As a result of our quest for progress in genetics and in more efficient management, we are producing surpluses of dairy products.

U.S. Cooperative Extension has translated these technological research advances into management progress on the dairy farm far beyond the need of domestic consumer demands. As a result, it was hoped that government officials would travel abroad to "peddle" our surplus dairy products to other countries.

This "peddling" often has not worked too well. At least, it seems as though U.S. poultry producers are much more successful in selling their broilers abroad. Maybe their advertisement is more effective or their price is more attractive.

Of course, we dairy producers have been so eager to rid ourselves of government interference in dairy business and milk marketing orders that we now may well have stranded ourselves somewhat.

If we produce too much, we can follow one of two strategies — produce less or sell more.

High feed costs force many dairy farmers to buy less concentrate supplement, to rely more on farm-grown feeding and to switch to more grazing. But this also means lower milk production, which an oversupplied market might welcome.

The produce-less strategy may mean that the glory days of super records of cows under DHIA award systems and young sire-proving plans may be in question.

The sell-more strategy has some farmers organizing on their own for self-help, because they have become frustrated with government officials.

It sounds as though U.S. dairy farmers unknowingly are in a transition state similar to their counterparts in the former communist states: Get rid of government support, intervention and subsidy.

On the other hand, when government minimum prices and support have ceased, where does a sufficient monthly cash flow to the dairy farm come from? Is this the dairy producer's Catch 22?

Dairy farmers in the former Societ Union are up against similar problems, and they are working hard to find alternatives.

Having been in Romania and Macedonia several times recently, I have seen firsthand what this means.

United States volunteers from the Mid Atlantic region, and organizations, including our own Land O'Lakes Company, have extended a helping hand to those struggling dairy farmers.

Who, you may ask, is extending a hand to struggling U.S. dairy farmers?

Self-help is happening in the United States, too.

Many dairy farmers have increased their herd size tremendously. This works, to some extent, under the law of "economics of scale."

For the first time ever in Delaware, there are dairy herds above 500 cows milking. But bigger will also mean more risk.

Such a strategy does not necessarily mean better net income, because of the dependence on skilled and reliable labor, now the number-one problem according to several studies.

What other alternatives do struggling dairy farmers have when the milk prive at the farmgate is too low and they do not want to sell out to developers?

Value-added production or "vertical integration" has been a positive alternative for many dairy farmers, especially in states that support these initiatives such as Pennsylvania.

It is legal and not too difficult in Pennsylvania to start your own milk-bottling business and sell milk retail from your farm at a much better price, even under a raw-milk license.

Not so in neighboring states.

My son-in-law recently showed me some slips he received for newborn bull calves.

They showed $0 net, because the price of hauling to auction and the auction commission equalled the current, extremely low, price for a healthy 90-pound Holstein calf!

How can dairy farmers survive under such conditions?

Auctioneers get their money one way or another, butchers also get their money, but the farmer — who bred the cow, fed her for the 9½ months of pregnancy, delivered the calf through sometimes difficult and costly birth — gets nothing for all the work and investment!

Some dairy farmers say that production does not pay anymore unless it includes butchering and retailing — another example of vertical integration.

The same challenge confronts dairy farmers with milk production.

Whether we like it or not, something has to give.

Cooperatives were formed some 70 years ago as the solution to regulate market surplus and milk demand in relation to a fair price for the farmer.

Today, when similar hardship conditions exist, what solutions are cooperatives offering?

Although many dairy farmers are discouraged, some are opting for their own retail businesses or adding value to their milk production by making and retailing their

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