

# Penn State Economists

(continued from Page A1)

tection to small and medium-sized dairy producers when milk prices are low."

"The bill has two unique features," Bailey said. "First, the size of the supplemental payment is tied to general market conditions. That means producers in the Northeast and Southeast, where most milk is used for bottling purposes, can benefit as well as producers in the Midwest and West, where more milk is used to make cheese."

"Second, the bulk of the payments are targeted to small and medium-sized dairy operations that have fewer than 150 cows. That's beneficial to many states that have large numbers of small family farms, like Pennsylvania," Bailey explained. "For example, a 'general' payment rate of 50 cents per hundred pounds (CWT) of milk is made when the annual average Class III price of milk is below \$10.50 per hundredweight. The Class III price

of milk averaged about \$9.74 in 2000.

"An additional payment of 30 cents per hundred pounds of milk is made if a producer did not expand milk production from the previous year. That makes the maximum payment under the dairy fairness bill equal to 80 cents per hundredweight — a significant price increase. For a farm with 75 cows shipping 1.26 million pounds a year, they could receive \$6,290 if they expanded and \$10,065 if they did not."

The study shows the bill would provide a lower level of price protection when market prices are stronger, Bailey said. If the annual average Class III price of milk rises to between \$12.01 and \$12.50 per hundredweight, the general payment rate is 18 cents per hundredweight and the additional payment rate for not expanding is 14 cents per hundredweight.

"Our farm with 75 cows would then receive \$2,265 if they expanded and \$4,026 if they didn't," he explained.

Farmers receive the payments on the first 2.6 million pounds of milk produced, matching the criteria of the federal Dairy Market Loss Assistance program. While all dairy farmers are eligible to receive the payment, the bulk of the dollars spent under the bill would go to small and medium-sized dairy farms, typically under 150 cows.

Congress will consider the cost of the program as it decides whether to pass the legislation. The study estimates the cost will vary from \$570 million in a low-price year to \$206 million in a high-price year. Most of the payments will go to regions of the U.S. with a heavy concentration

of small and medium-sized family farms and a lot of milk.

Bailey and Dunn observe that the bill would not completely solve the problem of "too much milk" in low price years. "On the one hand, there is an additional incentive payment for producers to not expand their milk production," Bailey said. "On the other hand, producers have the option of taking the

minimum 'general' payment and expanding milk production. However, these payments are only made on the first 2.6 million pounds of milk produced. Thus, the bill tries to limit the potential for expansion of milk production."

The complete study is available on the World Wide Web at <http://www.aers.psu.edu/dairyoutlook/>.

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#### Construction Equipment

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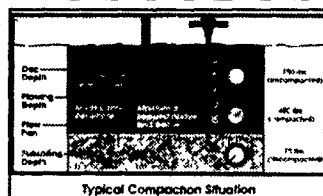
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