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Factors Affecting Returns to Labor and Management on U.S. Dairy Farms

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"Factors Affecting Returns to Labor and Management on U.S. Dairy Farm"

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What makes some farmers more successful than others? A better understanding of characteristics that influence returns would be useful to producers who wish to make changes in their farming operations in order to increase profitability and to policymakers who aim to formulate policies that help farmers maintain stable incomes.

The objective of this study was to identify factors that contribute to returns to operators' labor and management of dairy farms in the United States. Particular attention is given to the role of education and extension. Returns to operators' labor and management income (OLMI) is used to measure financial success. Regression analysis shows that farm size, farm organization, level of education, participation in extension activities, and uses of extension agents are important factors that influence OLMI. Forward contracting of inputs and other measures for controlling variable costs are also important factors in determining the financial success of dairy farms.

Under the 1996 Federal Agricultural Improvement and Reform Act (FAIR, 1996), Federal dairy policy called for replacing government purchases of dairy products with a loan program, starting in 2000. These changes reduced the Government's role in supporting milk prices. The increased volatility in milk prices likely to result from this new market-oriented dairy policy will adversely affect the financial position of many dairy farms, and may force some to exit the industry. Marginal operations characterized by low production, inefficiency, and high debt are particularly vulnerable. Farmers select strategies to improve farm production efficiency, risk management, and overall returns in order to be successful in their farming business.