

U.S. Dairy at a Global Crossroads

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Introduction

In the early 1900s, dairy markets suffered from chronic imbalances in milk supplies and demands and had limited means for fresh product storage and long-distance transportation. This situation presented few marketing opportunities for dairy products beyond local sales of milk or butter. The associated price fluctuations from supply and demand imbalances made it difficult for dairy farmers to gauge long-term demand and link that growth to projected expansion. As a result, government intervention was deemed necessary because, left alone, dairy markets often failed both farmers and consumers. Governments used various mechanisms to smooth out the imbalances, such as production quotas and direct government purchases of surplus products. Today, advancements in technology and supply chain management have helped resolve many of the marketing issues that plagued the dairy industry in the past. For example, farm milk can now be transported hundreds of miles then processed and packaged into a variety of fresh or storable products that can be shipped to overseas markets.

Over the decades, government intervention historically designed for improving domestic market performance has evolved into producer support and protection from foreign competition. Yet, the benefits of government support can be modest and, in the long run, can distort market signals and discourage producers from pursuing new opportunities. An earlier study by USDA's Economic Research Service (ERS) found that the measurable effect of U.S. dairy programs on producer returns over the past 20 years increased the farm price by only 1 percent and had a limited impact on the financial viability of dairy farms. That study focused primarily on U.S. producers and on domestic policy. This study addresses the economic dynamics of global dairy markets, the effects of international dairy policies, and the implications for the competitiveness of U.S. and international dairy industry. Understanding how the U.S. dairy sector is changing in response to global market forces will help assess future U.S. domestic and international trade policy reform.