

Marketplace Holds Answer to Dairy's Dilemma

By Bill Bruins

American consumers today are enjoying comparatively affordable prices for milk and dairy products. Consumers know, as does every dairy farmer, when milk prices go up, they eventually will go down and vice versa.

It's called supply and demand. It's how the dairy marketplace should be allowed to work. If history repeats itself (and it usually does), the extreme low prices farmers are suffering today will likely rebound next year.

In the meantime, many dairy farmers are holding on as their farms lose equity. Many dairy farmers are tempted to turn to the federal government for help. Some go as far as publicly saying depression-era prices and skyrocketing production costs will result in all dairy cows disappearing in a matter of weeks, unless the government takes control of the market. While Agriculture Secretary Tom Vilsack recently pledged a billion dollars of federal support, he acknowledges it will not move the needle much on prices.

We dairy farmers must remember throughout our current dilemma, the same force that gave us the glory of \$20 milk in 2008 is the same thing giving us the grumbling of \$10 milk in 2009. That force is the marketplace. Yes, the government does have a role in regulating the industry, and it does set the basic price for our milk. However, that price is largely determined by the marketplace's forces of supply and demand.

Some are cheering the USDA's decision to raise the product price formula. Yet, when that was last tried under President Carter's administration, government warehouses soon overflowed with excess dairy products. The nation's dairy herd needed to be reduced, so the government also established the whole herd buy-out program at considerable cost to taxpayers. Beef producers have never forgotten what it did to their industry as more cattle hit the market.

Every time dairy prices dip, some farmers talk about a supply-management program. However, a government-controlled reduction in the supply of milk is doomed to fail since other dairy-producing nations would race to replace it.

We import more milk products than we export. Even with our low prices, domestic processors (including our major cooperatives) can buy foreign products cheaper than U.S. products, largely due to our antiquated milk pricing system. Global trade is a fact of life. Last year the U.S. exported nearly 11 percent of its dairy production. When the world economy tanked, demand dropped and prices collapsed. When domestic prices reached support levels, U.S. dairy products began to flow into government warehouses instead of world markets. The global demand for milk protein remains strong, but given the global economic turmoil, we just can't provide it for the right price.

Winning back the world market is vital to the long-term growth of the U.S. dairy industry. It won't be easy, but America's dairy farmers will adjust. Our dairy industry will recover and American consumers will continue to enjoy an ample supply of domestic dairy products.

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