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Vermont's Agricultural Future
John McClaughry

The Undersecretary of the U.S. Department of Agriculture came to Burlington last week to seek citizen input on farm policy and rural development. One wonders why anyone from even as close as Milton or Hinesburg would journey to Burlington (in a snowstorm) to deliver a three minute commentary. But the subject matter is important, and some creative thinking is in order.

Vermont farming means, principally, dairy farming. Because of its economic impact, its influence on the Vermont landscape, and its historic contribution to Vermont's character and traditions, the future of the dairy industry is very important to the state.

For the past 40 years national dairy policy debates have revolved around one big issue: too much milk. Even as small dairy farms have steadily disappeared in Vermont and across the nation, milk production has marched steadily upward. The major reason for this is the effect of a web of Federal dairy support programs. In a politically popular attempt to "preserve the family farm", those programs give dairy farmers incentives to produce ever more milk, even as consumers (unwisely) shift their preferences from dairy products toward margarine and soft drinks.

Since the 1930s Federal Milk Marketing Orders have set floor prices that handlers must pay to farmers for milk. The orders include regional price differentials, to keep lower cost Midwestern milk from driving out higher cost regional production. When too much production drives market prices below a specified level, the Federal government buys up butter, cheese and dry milk powder.

Support programs encourage production. Excess production drives down price. So periodic attempts have been made to curb production at the same time as other policies are stimulating it. Notable among them was the dairy diversion program of the early 1980s, followed by a whole herd buyout. The latter curbed production for five years, after which it took off again.

In 1996 Congress was persuaded to ratify a six-state Northeastern Interstate Dairy Compact, a price-fixing cartel that allowed a dairy-dominated commission to force handlers (and ultimately consumers) to pay higher prices for milk. This produced a backlash from urban consumers and counterattack from Midwestern dairy interests who saw the Compact as an internal trade barrier to protect higher priced New England milk from lower priced Midwestern imports.

The Compact expired in 2001, and was succeeded by the MILC program. Under it, the government makes payments to farmers to support the price they get on their first 2.4 million pounds per farm per year. MILC expired on September 30, and the Vermont Congressional delegation is working feverishly to get it reinstated.

Dairy organizations have spent great time and effort lobbying the federal government to fix milk prices so they will get what they conceive to be a "fair" price for their milk. With the demise of the Compact and the eventual if not immediate demise of the MILC subsidy, more dairy farmers may at last come to realize that their economic success will not come from government market rigging, trade barriers, and taxpayer subsidies, but from competing creatively and aggressively in a marketplace that now includes all of the world.

New Zealand offers an instructive example. In the early 1980s New Zealand's government had spent the country into the poorhouse. In an earth-shaking reversal of policy, the Labour government installed in 1984 tossed out the entire web of price fixing, privileges, protection, and subsidies. It told its industries, including agriculture, that virtually overnight they would have to get efficient, compete, and either succeed or disappear.

New Zealand farmers rose to the challenge. Today they are the world's most efficient dairy producers. They rely on low-input, ecologically sensitive, management-intensive grazing. Some farmers disappeared in the transition, but the innovative, aggressive survivors have now defined world-class efficient dairy farming.

Some pioneering Vermont dairy farmers have gotten the message and have become more profitable than many old fashioned high-investment confined feeding operations. Examples are the Yandow farm in Swanton, the Chase farm in Holland, and the Forgues farm in Alburg Springs. The UVM Center for Sustainable Agriculture and the Vermont Grass Farmers Association have been important sources of support, along with the UVM Extension Service, NOFA, Shelburne Farms, and the Intervale Foundation. They have helped farms improve profits by organic certification, waste-to-energy systems, direct to consumer marketing, on-farm processing, farm tourism, and exotic crops (llamas, ginseng, fallow deer, emus, water buffalo, specialty cheese, chevon, etc.)

Simply dropping all government support for dairy farms overnight, as New Zealand did, would be too much of a shock. In time, however, Vermont's dairy farmers will prosper from having more freedom to innovate and compete in the marketplace. As their hardy forebears did long ago when the state was new, they will succeed by relying on their own ingenuity and hard work, instead of pleading for an undependable government to guarantee them a special deal.

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John McClaughry is President of the Ethan Allen Institute. He was formerly the Executive Secretary of the Cabinet Council on Food and Agriculture in the Reagan White House.

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