

Impacts of the Northeast Interstate Dairy Compact on Supply, Retail Prices and the WIC Program: An Introduction

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The Northeast Interstate Dairy Compact (Compact), the first regional dairy compact in the U.S., has been the focus of a great deal of attention and speculation during the past several years. The Compact was authorized under the Federal Agriculture Improvement and Reform act of 1996 and was enacted into law by each of the six New England states, Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont (U.S. Government). The Compact explicitly recognizes dairy farming as an important component of the New England landscape that provides both cultural and economic benefits to the region. The Compact's stated purposes are to assure the continued viability of dairy farming in the Northeast, as well as its associated support industries, and to provide consumers with an adequate local supply of pure and wholesome milk. The Compact provides a measure of farm fluid milk price control in the New England states in order to help satisfy these goals.

Additional Northeast states want to join the Compact and several southern states want to establish their own regional dairy compacts (Bailey and Gamboa 1999; Knutson 1999). Debates on whether to renew and expand the Compact centered on whether the Compact has really slowed down the disappearance of dairy farms and whether it has kept retail milk prices artificially high (Machacek 1999). Despite growing interest in dairy compacts, there are few published studies on the impacts of the one dairy compact already in existence.

The Northeast Dairy Compact Commission (Commission) was established under the Compact, and was empowered to engage in a range of activities to ensure that the Compact's goals are met. The Commission's primary responsibility is the

administration of an over-order price regulation for fluid milk. The regulation takes the form of a premium paid only on Class I milk to New England market producers. This over-order premium is determined by deducting the Federal Order #1 Class I price (Zone I—Boston, MA) from the Compact Class I price of \$16.94 per hundredweight and was instituted in July 1997. The Compact effectively establishes a minimum price of \$16.94 per hundredweight for fluid (Class I) milk in New England. The Compact requires that two adjustments be made prior to making producer payments. A reserve for reimbursement to the Women, Infants and Children Special Supplement Nutrition Program (WIC) is maintained by a deducting 3% of the Compact Class I value. A similar reserve is maintained to reimburse school lunch milk programs by deducting 1% of the Compact Class I value.

The Commission is also required by legislation to examine impacts of the Compact. The three studies that follow examine important impacts of the compact that were specifically identified in the authorizing legislation.¹ The first study presents analyses of Compact impacts on fluid milk production in the New England states. The study specifically investigates impacts of the Compact on herd sizes and production per cow for the six New England states. Increases in retail fluid milk prices caused by the Compact have brought about concerns from consumers and policymakers. Retail fluid milk price increases can have negative effects on consumer welfare and government programs

¹The three papers that follow summarize research that was funded by the Northeast Dairy Compact Commission.

such as the WIC program. In the second study, an examination of farm-to-retail fluid milk price mark-up behavior is presented. The study provides evidence on the asymmetry of retail price response to farm price increases versus farm price decreases for two New England cities, Boston and Hartford, and whether the historic farm-to-retail price behavior changed following institution of the Compact. A further implication of changes in farm-to-retail price behavior is that WIC program participants may be affected. The final study provides evidence on the impacts the Compact has had on WIC program participants.

References

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