cdfa
CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

Why is Milk Regulated?

Prior to state or federal governments' involvement in milk markets, a small number of large, well-organized processor-handlers controlled milk price negotiations. As a group, producers were not well organized and subject to the whims of these few but influential handlers. In an attempt to elevate their bargaining position, producers banded together to form dairy cooperatives. The main objective of these cooperatives was to gather enough membership to bargain effectively for a desirable milk price.

The success of early dairy cooperatives was limited. Effective price negotiations were impaired by the willingness of non-member dairy producers to sell their milk for less than the price negotiated by the cooperatives. These events persisted across the U.S. While other states were able to seek assistance from the federal government, the power imbalance in California's milk markets was deemed to be a "local" problem that did not need federal assistance. In 1935, the California Legislature addressed the inequities in milk markets by passing legislation that was intended to correct some of the existing market failures and disorderly practices.

Much has changed in the way that the dairy industry operates over the past 77 years. It follows from this notion that a question could be raised regarding the continued need for government intervention in milk markets. That is, does the dairy industry still need government oversight to achieve orderly marketing of dairy products? While much has changed in the dairy industry since 1935, many of the characteristics of milk, marketing of milk and related economic conditions that justified the government's intervention in the 1930's have remained the same. Some of the key characteristics are:

- Milk is a perishable product and must be harvested daily,
- Producers outnumber processors 20 to 1,
- Health regulations are insufficient to assure an adequate supply of milk,
- Production is highest when demand for fluid milk is at a seasonal low,
- Milk continues to be viewed as a necessary food item, particularly for children.

Marketing of milk and dairy products faces many of the same challenges that other commodities face. Without economic regulation, a strong potential exists for volatile and chaotic production and marketing practices. Milk supplies and market demands would be out of balance for extended periods of time. The swings in milk prices between the highs and lows are likely to be much greater without the stability offered by regulation.

The Dairy Marketing and Milk Pooling Branches continue to play major roles in the California dairy industry. The two branches work together to administer a regulated dairy program structure that is fair to all parties involved while helping to provide nutritious dairy products to consumers at fair and reasonable prices.