

Looking Back and Looking Forward – Perspectives on Supply Management Programs

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Why market intervention?

«Our findings illustrate that Canadian milk supply management was developed to deal with the producer inequities, surpluses, and market power issues related to the additional costs of supplying the fluid milk market on a year 'round basis; similar policies were developed to engage these same issues in other countries.» (The Conference Board of Canada, October 19, 2012)



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Why market intervention?

In supply managed production

- Specialized assets (amplified by technology);
- Thus, most fixed costs are sunk costs;
- Important delays between decisions and results;
- Family farm operators maximize more than profits (housing, way of life, jobs);

This creates a significant resistance for supply to adjust to low prices



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Why market intervention?

Moreover they produce a perishable product and although farm size are increasing, production is still atomistic while buyers are few.



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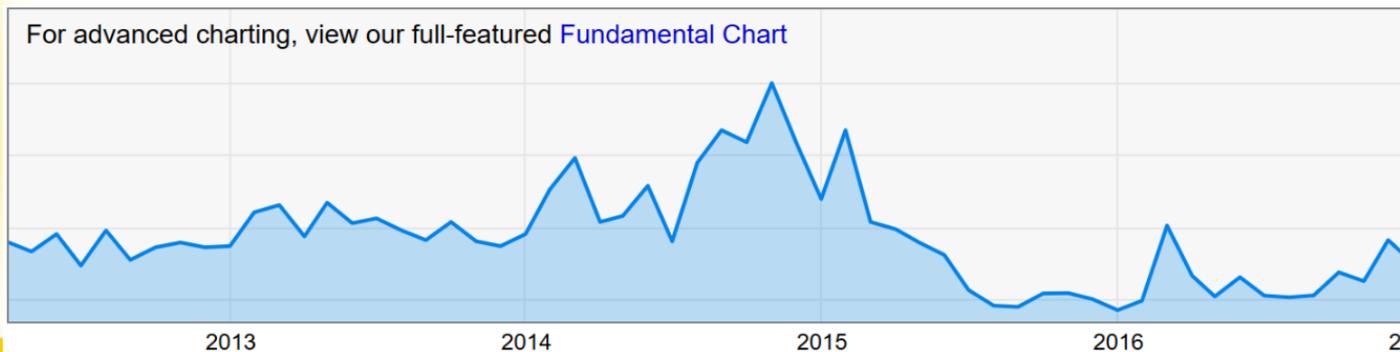
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Why market intervention?

In period of good prices, individual incentives result in overproduction while in period of very bad prices, quantity adjustments are slow, prolonging the crisis.

case of dairy in the US in 2009

case of eggs in the US since 2015



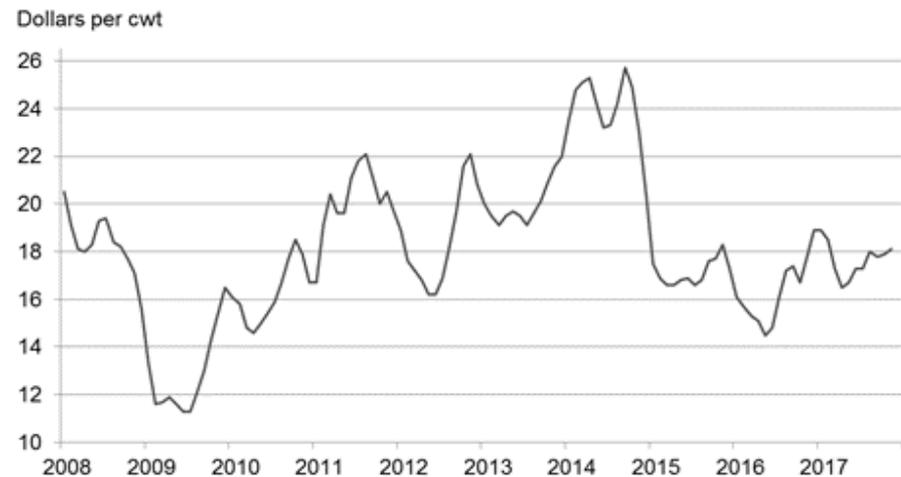
Why market intervention?

There is a need for coordination to improve market efficiency.

Bubbles and busts are not efficient

In the presence of price volatility,
how can one equate $p=mc$

Prices Received for Milk by Month – United States



USDA – NASS
12/28/2017



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How to achieve coordination

Vertical integration/contracts

Create a monopsony/monopoly own by farmers
(Fonterra)

Marginal milk pricing (which was not implemented)

Supply management



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Supply management

The principle of supply management works;

It is still around, thus it is supported from at least some stakeholders, including governments;

In all supply managed productions, the system has evolved since its implementation.

Supply management also generates problems, does it mean that its elimination is the best solution?



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Supply management

When asked, a non representative sample of 427 economist across Canada (men, academics and Quebecers being overrepresented), 43% were in favor of supply management and 51% were not.

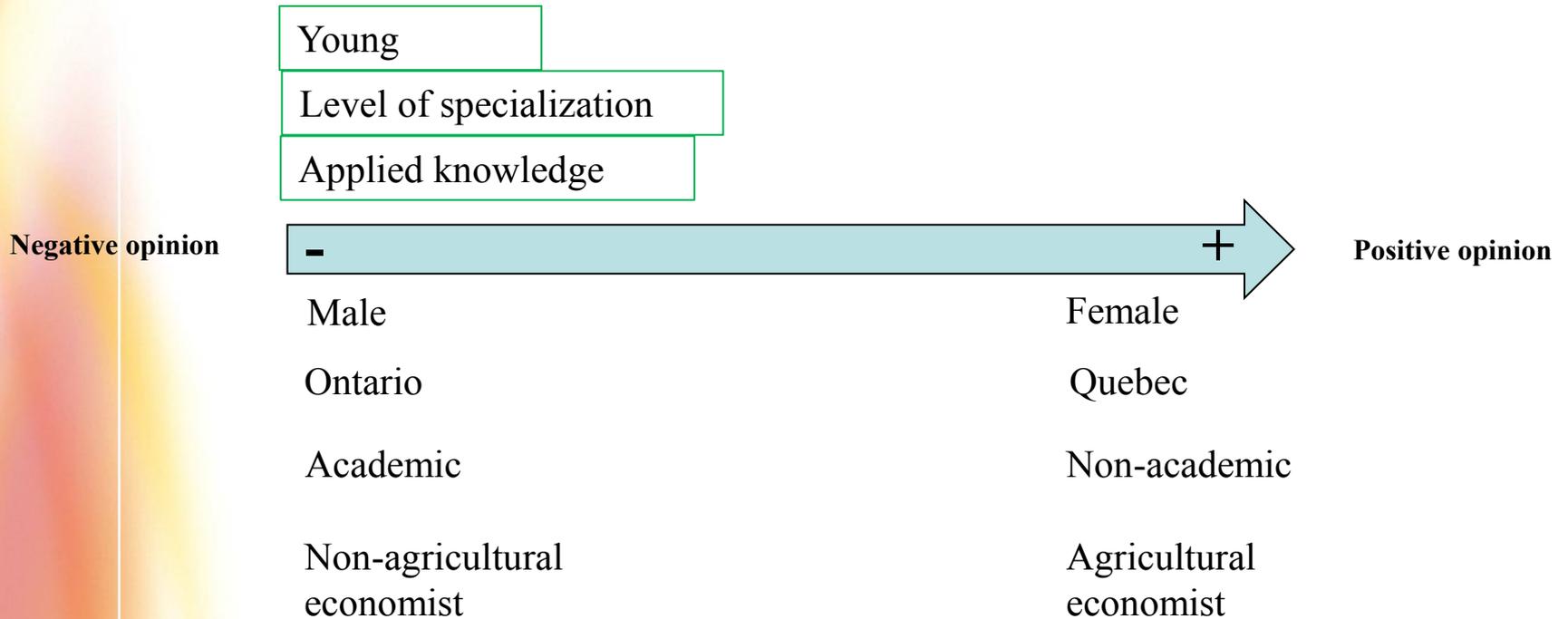
Interestingly, if supply management was to be eliminated, 65% of the respondents with an opinion declared that it will have to be replaced by another system.



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For fun



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