

Economic Impact of the IOM Recommendations on the WIC Program on the U.S. Dairy Industry and the Federal Budget

The recommendations from the IOM on use of dairy products in the WIC program call for a reduction from current levels – which provide 24-28 quarts of milk per month for women and children, which can be exchanged for cheese on the basis of 3 quarts per 1 pound of cheese up to 4 pounds per month – to 16-24 quarts of milk per month for women and children, which can be exchanged for cheese on the same basis but only up to 1 pound per month. The current additional allocation of 1 pound of cheese per month for breastfeeding women would not change.

Using data from USDA for fiscal year 2003, it is estimated that WIC program milk allowances totaled 424 million gallons for all program participants, of which the equivalent of 388 million gallons, or 91.4% of the maximum possible, was actually utilized, in the form of 304 million gallons of milk and 116 million pounds of cheese.

Under the IOM recommendations, the total amount of milk permitted under the program would have been 298 million gallons, using the same fiscal year 2003 data, which is considerably below the estimated FY 2003 usage of 388 million pounds of milk. Under the best case assumption that 100% of the reduced quantities would actually be utilized, it is estimated that purchases would total 247 million gallons of milk and 73 million pounds of cheese. Under a more pessimistic assumption that purchases would reflect the same 91.4% actual use rate estimate for FY 2003, it is estimated that purchases would total 226 million gallons of milk and 67 million pounds of cheese.

Under these two assumptions, which cover the range of likely purchasing responses by WIC participants to implementation of the IOM recommendations, purchases of fluid milk would decline by 57 to 78 million gallons per year, and purchase of cheese would decline by 43 to 49 million pounds per year. These reductions are equivalent to losses of 0.9% to 1.3% of annual fluid milk sales and 1.1% to 1.3% of annual sales of American-type cheese.

The processing sector of the U.S. dairy industry would experience sales losses of between \$321 and \$402 million per year, while the producer sector would experience income losses of between \$1.05 and \$1.3 billion over four years from the combined effect of reduced commercial sales of milk and resulting lower prices over that period.

Federal budgetary expenditures would also increase, by between \$63 and \$80 million per year due to increased purchases by the Commodity Credit Corporation (CCC) under the dairy price support program. The program removes quantities of surplus dairy products from the commercial market, and is currently purchasing significant quantities of nonfat dry milk. The dairy industry currently processes additional quantities of milk not needed in the commercial market into nonfat dry milk and butter. The additional volumes of nonfat dry milk displaced to the CCC as a result of implementing the IOM recommendations are estimated at between 78 and 100 million pounds per year.