FIFTH ANNUAL MIDWESTERN MILK MARKETING CONFERENCE

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Inter-Market Strains Resulting from Grade A Ordinances

Dale M. Dohner, Mansfield, Ohio: In 1934 our local health department in Mansfield adopted a Grade A ordinance which was pretty extreme compared to what we had been used to. It meant a radical change among the producers. In 1936 the Board of Health revised the code to conform to the U.S. Standard Ordinance. That code eliminated a lot of milk but we had an adequate supply after we got straightened around. We were one of the first areas in the state to use the Standard Milk Ordinance. We were proud of our milk supply.

About a year and a half ago, our evening paper had a full-page advertisement stating that a super market had brought in a new milk supply. A dairy company 95 miles away began supplying milk in paper. The super market was selling milk 2¢ cheaper per quart than the other stores or our retail price. We wondered how it could be done.

Business was being taken from our producers. We thought we were protected because of the high standard of quality which we had maintained and the city was demanding.

We found that the market 95 miles away had adopted the U.S. Standard code about two months before and had a sufficient supply of milk to furnish its own market and three or four markets besides, so they said. We investigated. We made several trips over there to find out where their supply was coming from and how they got so much Grade A milk in a short time. We were told that the market 95 miles away did not have that much milk and even then was transporting in milk to supply their own market with Grade A milk.

Our Health Department had changed health commissioners. The new commissioner had just gotten established when the new milk supply came in.

On one of our visits to the out-of-town supply, I went over with one of the dealers from our market. We were discussing the shipments to our market with their inspector, a veterinarian. He said:

"You shouldn't feel so funny about this. That is the way milk is going to be handled from now on. You might as well be prepared for it. The big companies are going to do it. They are going to handle milk from one central point; and they are going all over the country with it. The little fellows are done. They are out."

Later our health commissioner and I asked this same inspector: "Where do they get the supply?"

"Why," he said "we don't have enough from our own producers. We are having Grade A milk certified to our health department from another health department. Our health department certifies to your health department that the supply is Grade A."

We had to accept that milk as Grade A, which we did under protest. We found out later that they were using some manufactured milk on which the bottler was given 15 days to replace.

Operators of other super markets and stores said: "If any competitor sells milk for less, we will have to too." They met the cut price.
The supermarket men came to our local dealer and said: "This bottler from 95 miles away wants to sell us milk in paper and we want paper. You have paper for us tomorrow morning, or we are going to the out-of-town company."

That meant a tremendous volume. So the next morning our dealer sent a truck 45 miles away to another plant where he got Grade A milk in paper and supplied the super markets. Our milk handler had 30-35 percent of our milk producers for which he had no use.

In the short season our dealer could take some of our milk 45 miles to have it bottled and bring it back. When the flush came he said: "You keep your milk at home. We have plenty here."

Within a few months our dealer put in a paper machine. This same company is now distributing milk in paper in practically every town and village within a radius of 50 miles of Mansfield. The price is whatever is necessary to get it. The distributor has applied for permits from all these health districts.

The health commissioner told me last week that he has applications from seven other plants in other towns that want to sell milk in Mansfield as a retaliation for our dealers selling milk in their towns. We are just trading milk. We take ours out and the other fellow brings his in.

All of these markets have Grade A ordinances with varying enforcement. We inquired from the State Health Department whether all dealers selling in Mansfield actually had Grade A Milk.

"Yes," the state department said. "They have Grade A. There isn't a thing you can do to keep it out. Their Grade A ordinances are the same as yours."

Grade A has created a marketing problem. More milk is coming into our market and more is being distributed in this extended market. But it hasn't benefited the producer. It has made the consumer price-conscious. The dealers have taken out-of-town business on a lower price basis - 1, 2, 3, or 4 cents, whatever is necessary to get in.

Our local newspaper finds out about these lower prices and prints a piece on the front page. "This dairy is selling milk in a town 45 miles away for less than it is selling it in Mansfield. What's the matter?" asks our editor. Our dealers cut the price in Mansfield and we have to go along with them.

The producer has lost price and he has lost a lot of business. The Standard Ordinance hasn't guaranteed us a thing. We are in the process of revising our Code, using the 1950 revision of the Standard Ordinance. We have to do it to protect our business, our producers and our handlers.

I received a copy the other day of the proposed changes in our Grade A ordinance. The changes are interpretive. The commissioner can make the code very rigid or lenient. To the producer who has the expense of meeting further restrictions, the Board of Health says: "The ordinance guarantees the producer a market." We don't feel it guarantees us a thing.

* * *
Research in the Field of Quality Standards

H. S. Adams, National Research Council, Ithaca, N.Y.: The committee on Milk Production, Distribution and Quality works under the direction of the National Research Council and is a part of the National Academy of Sciences. The National Academy of Sciences is a non-governmental agency which was created beginning about 1862 by President Lincoln to advise the government on matters of scientific interest. This committee, upon which Dr. C. G. McBride serves, has seen fit to enlarge its scope somewhat and embark on a study of milk regulations as they may affect milk quality. The money for this research work has been appropriated through the United States Department of Agriculture. The project was given to the National Research Council because it does represent a neutral and impartial body.

We have only been going on this project about five months. Dr. A. C. Dahlberg, the director, came on officially October 1. I happened to be on a year's leave of absence from the Minnesota State Department of Health and came on November 1. I would prefer to call this simply a progress report.

The project is divided into three phases. The first was to determine what requirements are in force and how these requirements may affect the quality of fluid milk and fluid milk products. And to indicate the range of variation of these sanitary requirements throughout the United States.

The committee decided to eliminate variables in population size. We will only be interested in cities of the 100,000 and 500,000 groups, of which there are approximately 80 cities in this country, according to the U.S. census of 1940.

The second phase of the project was to select a representative number of states and a representative number of cities to be intensely studied. Having selected a group of cities from ten or a dozen different geographic locations throughout the country, an intensive study of their programs will be made. The committee is interested not only in the regulations in those states and cities, but likewise in the administration of the sanitary codes and ordinances as they may actually affect the production, processing, distribution and delivery of milk. Dr. Dahlberg and I have carefully read and studied ordinances and state laws from thirty-three states and seventy-two cities. We have made a tabulation of the different state laws and city ordinances. In the thirty-three states that we studied (we didn't take all 48 because some of the states do not have cities of 100,000-500,000 populations) we found that the administrative responsibility for milk sanitation is vested about 50-50 in the department of agriculture and department of health. In sixteen states milk sanitation is vested in the state department of agriculture, in fifteen states in the department of health, and two states have joint authority. In two states I can recall, the farm sanitation program is the responsibility of the state department of agriculture and the milk plant and milk pasteurization program is the responsibility of the department of health.

The state laws vary considerably in their specifications, all the way from the most modern types of dairy technology to some that haven't been revised or amended for a good many years. We find, however, that a good many states and cities have revised their codes and milk ordinances within recent years.
City ordinances were studied for 72 cities. The city codes are of three types. The first type are those cities which follow the state laws, or the state dairy codes. California and New York are typical examples of that. The state code gives overall coverage in milk inspection and milk sanitation. Cities cannot without approval of either the commissioner of agriculture or commissioner of health make those rules and regulations more stringent or more detailed. I do think that we need someone at the top who can view these things from an overall point of view. Everyone has a tendency to think that he knows how to do the job just a little better than someone else. As a consequence you get a mixed up ordinance that has special provisions in it that probably have very little value as far as protecting the milk supply. There are 22 states that follow basic state codes.

The next group of city codes have no particular identification. Ordinances were probably drawn by city attorney through the efforts of the department of health. They have collected a series of ordinances from cities in their same size groups. They picked a paragraph from here and a paragraph from there. There are 10 cities out of the 72 that have that type of ordinance. The predominate group of cities, however, are those which follow the U.S. Public Health Service Standard Milk Ordinance of which there are 40 out of the 72. Sometimes cities decide to modify the Standard Ordinance. I think it would be better if they would accept it as it is. Practically all city ordinances, which we studied, are relatively recent. Nearly half of them were enacted or amended since 1946. Very few ordinances of the 72 we studied date back more than 10 years. We know that milk quality dropped during the emergency brought on by shifting populations and by the demand for large quantities of milk. It appears that cities have decided to raise their standards. As I said earlier, this study has been divided into three phases. The first phase was studying, tabulating, comparing and looking for variations in the milk laws and milk ordinances of the several states and these 72 cities. That job has been pretty well done. But our committee decided at the meeting on January 5 that we should include all states and all cities over 100,000 population. We will have to study the ordinances for the other 16 states and for about 18 other large cities.

The second phase was the visitation by Dr. Dahlberg and myself of the state departments of health and state departments of agriculture in some 23 states. We wanted to get as much information as we could firsthand from state administrative officers about the cities in the population group 100,000 to 500,000.

So we did not contact any of the cities. We discussed our plans with the state health and state agricultural authorities irrespective of who had authority. That second mission has been pretty well accomplished. The committee will meet again and select ten or a dozen cities for intensive study. We probably will go into the city and stay as long as necessary to observe exactly how the program is operated.

We will observe the personnel; how they conduct their work; how they interpret their ordinance; what emphasis they place on certain items. We hope to learn what are the basic essentials that should go into every milk ordinance whether it is in California, Texas or Maine. The second objective would be to
study the administration of that milk ordinance, try to determine what makes good milk good from the standpoint of control.

You no doubt are wondering what can we expect from such a study as this. Perhaps I am an optimist but we do have these objectives.

We should be able to recommend a logical, scientific pattern for milk control activities within the several states and in the large cities. We don't expect to revolutionize milk sanitation by any manner or means, but we do hope that some of our findings will be helpful as time goes on. Number 2 point would be to establish essentials which would be a part of every effective milk control program and to call attention to those which are unessential. You could name hundreds of incidences and so could I where people have seemed to "go off the beam" on this business of milk sanitation. I am a public health man myself and have been one for 20 years. I have done a lot of milk inspection and have probably made all of the mistakes that other inspectors have. As I look back and think of those foolish mistakes, I hope I am wise enough to try to correct them. I was in a barn the other day, a neat milk parlor, milk house type of barn in a certain city. The dairymen was sheathing over the ceiling. I said to him "What are you doing that for?" "Well," he said "the inspector thinks I ought to." There was no reason from a sanitary or public health point-of-view for that man to spend money to sheath over this ceiling. It wasn't going to help the quality of his milk one bit. I doubt very much if the code that this particular city is following would require that. Furthermore if a showdown of the thing came, I am sure that no court would uphold it as essential to the production of sanitary milk.

Those are some of the things that we feel we can point out on this study. We certainly don't want to miss those items which are conducive to the production of good, clean, safe wholesome milk. The dairy industry has a responsibility to handle and put out a good produce. If we as an official agency can help promote sanitation on the farm or in the plant, that is certainly our responsibility to do so. But we ought to do it with reason and we ought not ask for something that cannot be backed up.

The third point would be to establish more definitely the dairy industry's responsibility for quality milk production. By that I mean no one, to my knowledge, has examined very closely the place of the plant fieldman in milk production. Most large plants have quality control men. We know that they are doing a swell job. But how good and how much good are they doing? And should that program be extended? I am not answering that question, I am asking it.

The fourth point would be to investigate trade barriers which may exist in the form of non-essential and artificial sanitation requirements between different political jurisdictions. I hesitate to bring this up because you people know a lot more about trade barriers than I do. But frequently industry and control officials have connived to try to build a fence around their particular market to protect it from the inroads of competition.

There should be no trade barriers that camouflage artificially under the guise of sanitary requirements. If the sanitary requirement of one city is reasonably good and the sanitary requirement of a neighboring city is not good, then I think there is justification for excluding milk on the basis of not being of equivalent quality.
Some cities have said that only milk pasteurized in a certain restricted area could be sold in the city. Restrictions of that nature have been broken down time after time in the courts. I think that this committee can contribute something toward the awakening on the part of public officials that there should be a free flow of milk and that we shouldn't erect artificial barriers under the guise of high sanitary standards that have no particular merit.

The final objective would be to publish our findings. These findings, we hope, will prove of value to state and city legislative bodies in the enactment of more uniform, sensible and effective dairy legislation. If these objectives are accomplished, the project should prove its worth and point the way to greater uniformity in control practices and should materially aid in raising the standards of safety and sanitary quality of milk.

It is encouraging to note that milk sanitation, apparently from our rather brief review of work, has greatly improved to this country in the last five or six years. My experience in meeting milk control officials in the some 16 states that I visited was very heartening. They seemed to be high type men. They were all trying to do a good job. They were handicapped for lack of personnel. They were handicapped because the people they had were not particularly trained for some phases of the work; or they had their budgets slashed. Sometimes we are prone to criticize public officials but we don't always know all of the background as to why they don't do this or that, or they do it the way we think they shouldn't.

* * *

Wisconsin's Minimum Dairy Standards

Evert Wallenfeldt, Madison, Wisconsin: The standards in Order 124 of the Wisconsin State Department of Agriculture are only minimum standards. Any plant or any city can establish higher standards if they see fit but they cannot legally accept any milk or cream in Wisconsin for any human food use if it does not come up to these minimum requirements.

A subsequent Order (No. 125) has been issued which covers standards and regulations for production and processing of milk and milk products for interstate shipment as Grade A. The standards set up in Order 125 for this purpose are essentially those provided in the Standard U.S.P.H.S. Ordinance and Code for Grade A milk and dairy products. The minimum standards do not have any effect on Order No. 125 covering Grade A fluid milk standards.

The minimum standards were developed on a State basis because many Wisconsin leaders both among the producers and processors realized that something of this nature had to be done to protect the market from the damage done by the sale of insanitary milk and cream. This was in addition to the realization of the need for protecting the consumer both from the standpoint of health and the standpoint of prevention of fraud in the sale of milk of inferior quality. These leaders had long recognized that it was not sound to try to get people in consuming centers to believe that milk was all of high quality unless there was an effective program functioning to insure such quality. The results
of many years of intensive as well as extensive educational work on quality improvement on the part of regulatory agencies, producers' organizations, dairy industry groups, both as individual plants and associations of plants, together with the educational agencies, had indicated that there would always be some producers who would continue to produce insanitary milk and cream as long as there would be a market for it. Experience had shown, too, that there had always been some operators who would continue to buy such insanitary milk or cream as long as they could stay in business doing it. These standards were drawn up with a full realization of this and the studied aim of correcting this situation.

The publicity given to educational programs on quality came to the attention of a number of legislatures. In 1937 comprehensive legislation on dairy quality with some provisions similar to those contained in the present minimum standards was introduced but failed to pass. The next legislature in 1939 succeeded in passing the enabling act now in the Wisconsin Statutes as 97.37 which provided for regulations as follows:

The department shall establish standards and prescribe regulations whereby the intake of these producers of milk shall be inspected, sampled and tested by the sediment, methylene blue, or other tests, and insanitary milk or cream shall be rejected as food for man or to be processed or manufactured for food for man, and shall be identified, in a manner that will not prevent its use as food for animals, and regulations for the keeping of the test records, the prevention of further delivery of insanitary milk or cream by such producer, and the correction of the insanitary condition.

Development of specific standards was delayed the beginning of the war in Europe during the summer of 1939.

Delay was caused by the need for more comprehensive understanding of the necessity of such standards on the part of the majorities of both producers and operators.

Further delay came because of the need for more adequate representation of all concerned in drawing up the standards.

The Wisconsin Dairy federation, an over-all organization representative of all dairy interests in the state, was organized to carry on activities which were in the public interest and of non-controversial interest to all branches of the dairy industry. The board of directors is made up of six producer representatives, six processors, representing each of the six major branches of the industry and seven men representing the public agencies. The first major job tackled by the Wisconsin Dairy federation was the dairy quality problem because the board of directors considered it to be the number one problem of the dairy industry.

Numerous meetings with prolonged detailed debate were required (summer of 1947 to February 1948) before the majority on the quality committee and the majority on the board of directors could reach an agreement on what was necessary in a set of standards and regulations to prevent the sale of insanitary milk and cream in accordance with the enabling act 97.37 passed by the 1939 Wisconsin legislature.
Plants must discontinue buying milk from a producer of unfit milk and cream. Refusal to buy is mandatory for any of the following conditions:

Where a patron's milk has had undergrade bacteria tests for four weeks in succession.

If any part of the patron's milk or cream has been found to be No. 3 or poorer on sediment for six days in succession.

If any part of the producer's milk or cream has been rejected for four consecutive days because of off-flavor, odor or other abnormal conditions.

If the patron refuses to correct unsatisfactory conditions at the farm after they have been called to his attention twice on an inspection report, provided that where the correction requires some major expense a reasonable length of time may be granted to complete such improvement.

If the producer refuses to allow inspection of his dairy premises.

Every plant must report the names of any shut-off patrons to the State Department of Agriculture within 12 hours after refusing to buy milk or cream from such patrons.

No dairy plant can lawfully accept milk or cream from any shut-off patron until authorization has been granted in writing by the State Department of Agriculture.

No dairy plant can lawfully buy the milk from a new patron without first having a copy of that patron's quality record for the past three months at his previous plant. The plant previously buying the milk or cream must supply the patron with a copy of such record within 24 hours after the patron has asked for it.

The State Department is responsible for "spot checking" both producers and plants to determine compliance as follows:

It shall be the duty of the authorized department dairy inspector assigned to the area to:

(a) Examine the records of the bacteriological and sediment tests of the milk or cream and the farm inspection records for the individual producers at each dairy plant as frequently as deemed necessary.

(b) Examine the records of the rejected milk or cream and of the excluded producers.

(c) Inspect the milk or cream and the premises of any excluded producer seeking authority to resume sale of his milk or cream and to grant such written authorization if warranted.

(d) Give special attention to the quality records of new producers.
(e) Make "spot-checks" of the producer's premises and of the milk and/or cream received at dairy plants and to compare the results of such investigation with the plant records.

(f) Furnish to the operator of every licensed dairy plant so examined, a dated and signed copy of his report of examination, describing matters requiring correction.

(g) Render advice and assistance to producers in the production of milk and cream of desirable and acceptable quality and render assistance to the plant operator in his territory as to the interpretation of these minimum standards and regulations to prevent the acceptance of insanitary milk and cream as a human food product."

The minimum standards put these restrictions on farmers:

Every producer must permit the plant where he sells his milk to inspect his dairy premises. After each inspection, a report is to be left with the producer giving the conditions that fail to meet the requirements. The producer is required to correct these conditions.

The items included in such an inspection are the cows, the persons doing the milking, the dairy barn, the cowyard, the outdoor toilets, insects and rodents, the water supply, all utensils and milk handling equipment, the method of cleaning utensils and milking machines, the place where the utensils are kept, the method of milking, the method of straining, the method of cooling, and the places where the milk is cooled, and where the utensils are washed and sterilized.

I didn't intend to take that much time for a background of it. You may be interested in how large a percentage of the farmers have voted for these minimum standards. The Wisconsin Agriculturist, one of the farm papers in our state, conducted a poll. They found that over 70 percent of the people who had answered their questionnaires voted for the standards. At some of our meetings we tried a similar poll. We used the same questions as the Wisconsin Agriculturist had submitted and used those at the end of the meetings held with producers. They ranged like this:

At one meeting 93\% percent of farmers voted for the Standards by a secret ballot. Members of the audience acted as tellers, counted the ballots and announced the results. In another area 91\% percent, in another area 90 percent, another area 90 percent, another area 91\% percent -- in those five or six places where we conducted that poll.

* * *
Questions and Comments on Quality Standards

Noble Clark from the University of Wisconsin: I would like to ask Mr. Adams if his research group plans to make any study of the relationship of the actual quality coming into city markets with reference to the type of ordinance they have, or if there is any correlation between what is on paper and the milk delivered in the city.

Mr. Adams: It is our plan to set up one, at least one, laboratory at some state university and staff that laboratory with competent bacteriologists, chemists, or technicians, so that we will not have to depend on anybody else except our own laboratory to examine samples of milk as it is received from the farm and as it goes out to the consumer. We will try to determine whether there is a correlation between the quality of that milk and the type of enforcement that takes place. We will have to rate a city's efficiency, so to speak, or administrative control of milk on the ordinance that it operates under.

Mr. Moomaw, Canton, Ohio: I should like to direct my question to Mr. Dohner. I am heartily in favor of anything that improves the quality of milk and makes it a more saleable product. I can see why in Wisconsin where they are looking to an outside market, they might vote differently than farmers in a state where there are many milk markets. Farmers say that inspection ought to be uniform, but they forget when it is uniform they will start to run over each other, like Mr. Dohner said. Mr. Dohner, will you elaborate on your experience a little bit, whether you felt that it was to the interest of your farmers to chase milk 45 miles one way and then chase it back, or whether it wasn’t?

Mr. Dohner: We were not, and are not opposed to milk sanitation regulations. We enjoyed for a period of 13 or 14 years a good quality milk and we were interested only in supplying our own local demands. We didn't go outside the market. Suddenly milk came in which met the regulation at a lower price. If producers at the other end were receiving an equal price as our producers, then we had nothing to say about it. Those producers were being paid a manufactured milk price and their milk was put in bottles with a Grade A label, and sold in competition in the market with grade A regulations.

Our producers lost sales. A few were shut off, and the rest of them put on a base surplus plan. Our producers were left holding the bag!

C. G. McBride, Columbus, Ohio: May I ask Dr. Wellenfeldt if he cares to comment on this question, could this sort of thing happen in Wisconsin?

Mr. Wellenfeldt: We are interested in selling milk to the other areas. We market only about 15 percent of all of the milk produced in Wisconsin in Wisconsin. We have to sell about 85 percent of it outside the state. We have problems of milk coming from one city area into another. Milwaukee for example goes as far as Green Bay in competition. Milwaukee goes way up to the northern part of our state during the summer resort season. We do have some of those same problems.
Mr. Adams: Grade A milk is grade A milk whether it is in Mansfield or Portland, Maine. If it is Grade A standard, I don't think the health people have any say as to where it is going to be sold. They certainly are subject to criticism if they let the buyers down and let milk that is labeled Grade A come into an area where it isn't Grade A and when it is below the standard of community that is accepting it.

The U.S. Public Health Service publishes a list of cities that show a 90 percent compliance or better, that is, a sanitation compliance rating. It is not logical for the community with a 75 percent rating to say that we won't accept any milk from other communities on an equal basis and on a like rating, and to use that as a trade barrier is not good public health practice. I do not have anything to say about the economics of it, but from the sanitary point of view the receiving community should not require higher standards of the importing community.

The Grade A ordinance, has affected the State of Wisconsin over a period of years. The City of Chicago passed the Grade A ordinance in 1939, if my recollection is correct. As a result of that over a period of 10 or 12 years the Chicago milk shed has enjoyed a free market all over the country. Most states in the union will accept Chicago inspected milk, some of it produced in Wisconsin. That is a good example of good milk administration.

Ivan Steffy, Akron, Ohio: We have heard what Wisconsin producers must comply with. I am wondering what check there is, what control there is, over that milk after it arrives at the plant? How much inspection is there to insures good quality milk after it gets out of the plant, Mr. Wallenfeldt?

Mr. Wallenfeldt: Responsibility of the plant is provided for in the statues at the present time, but they are not as detailed as these minimum standards. For that reason the Wisconsin Dairy Federation now has large committees of some over 25 people working on minimum standards for the dairy plants. The standards should be ready in a few weeks time, ready for public hearings.

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Experiences in Cooperative Marketing of Dairy Products

TRANSPORTATION

George Chelquist, Pittsburgh, Pa.: Our association was organized in 1917 and chartered in Ohio in 1918 as the Dairymen's Co-operative Sales Company. In 1932 we secured a charter in Pennsylvania under a later and more favorable cooperative act passed in 1929, as the Dairymen's Co-Operative Sales Association. We have approximately 11,000 members in eastern Ohio, western Pennsylvania and West Virginia. We have nine director districts and seven marketing areas as follows: Barnesville, East Liverpool, and Youngstown-Warren, Ohio; Pittsburgh, Pennsylvania; Charleston, Clarksburg and Wheeling, West Virginia.

Members are assigned to a local and a hauling route, with some exceptions. We have 128 locals. They elect their own officials and function as a compact unit. Three hundred twenty-three contract haulers haul the milk from the farms to 63 contracting dealer plants for this association.
This association does not own any plants. By agreement, our large dealers who have manufacturing facilities, take care of most of the surplus milk of our smaller dealers.

When this association was organized, practically all the milk was shipped to market by train or street car. In 1921, according to our records, a few individuals started hauling milk from farms to plants by truck. Because of road conditions and equipment available, the going was rough.

As roads and trucks improved, the shift from trains and street cars came rapidly. Having the milk picked up at the farm, thereby eliminating the haul to the station, was a valuable service to producers. Having the milk delivered direct to the plant, eliminating the haul from the station to the plant by the dealer and returning the empty cans, was a valuable service to dealers. Most country plant milk in this market was also shipped by rail in cans at that time.

In 1925 this association began contracting with truckers for hauling of its milk. In the Pittsburgh direct shipped area, hauling charges are deducted by our dealers and sent to the association. The association pays these haulers. From 1921 to 1925 the haulers operated as public carriers and collected hauling charges direct from producers.

At first our hauling contracts were made for one year. In 1928 the association recommended that the expiring date of all hauling contracts should be June 30, and in 1934 changed this date to March 31 to correspond with the date that producer members can terminate their membership. Previous to 1934, members also signed the hauling recommendation but after 1934 this was not necessary. Some contracts then were written for more than one year, but this did not solve our problem.

Every time a hauling contract expired, some producers demanded that the route be put up for bids. Some of these individuals wanted an opportunity to bid on the route and others merely wanted cheaper hauling rates. This required considerable assistance and field work to the local routes involved.

Good reliable haulers sometimes lost to lower bidders who did not have the knowledge or experience as to costs of operation or the service required. Then rates had to be increased and sometimes new haulers had to be secured. Some good haulers who maintained good equipment and gave good service were treated unjustly in this respect.

To correct these conditions, our hauling contracts were made continuous April 1, 1937. They can still be cancelled on 30 days notice by either the hauler or the association, but unless cancelled by either party, they continue from year to year. For cause or reason, such as unsatisfactory service, hauling contracts can be cancelled immediately by the association. This type of contract has proved satisfactory. Since this association does not own any plants, we have no tank milk. The milk is hauled from farms to plants. In the case of country plants, the dealer arranges for the hauling to the city by tanks.

The hauling contract is between the association and the hauler. However, with each hauling contract comes a recommendation to the association from the local, signed by the local officials, naming the hauler, the rate, the terri-
tory to be covered, the producers on the route and the date the contract becomes effective. They also specify the type of service to be given and write in any other particulars. With few exceptions, the contracts are approved by the association directors as received from the locals.

New contracts or changes in rates are subject to the approval of the majority of members involved at a meeting, unless the local has specifically given the executive or hauling committee authority to act without their approval. Locals may have one or more routes. Sometimes a small hauling committee looks after all routes in a local. In other cases they have a hauling committee for each route. When changes are made, the producers should be notified in writing of the meeting and its purpose. This may include the whole local or only the members on the route involved and all local officials. The majority of those attending, decide the issue, providing a quorum of 10 at present.

Often the local officials and the haulers or prospective haulers have met previous to the meeting of the producers and have a tentative proposal or agreement to submit to them for their approval, rejection or change. This is a very good practice and speeds up the procedure. When requested, the association furnishes the pounds of milk and income in dollars, by months, mileage, time and income per mile and hour. By comparing with similar routes, they can more easily determine whether the hauler is entitled to a higher hauling rate or is getting enough. One important factor is whether he has as much milk as in previous years. This information is of considerable value to the local officials and members in making their decision. When the hauler needs an increase, this information is in his favor. If he has a good paying route, this information will probably keep him from getting an increase.

Rates vary from 12¢ to 45¢ per hundredweight, depending upon the size of load, mileage, condition of roads, type of service such as pick up at the milk house or from a roadside stand, hilly or level country. In the past, covered insulated bodies have not been required in all plants, but they will before long in most of our markets.

Several times the right of this association to contract for the hauling of its milk has been contested. First in 1926 through the Public Service Commission in Pennsylvania. The Commission ruled favorably for this association. Again in 1934 and this time the Public Service Commission of Pennsylvania ruled that our private hauling contracts were not legal. The case was appealed and the Pennsylvania Superior Court reversed the decision in favor of the association. The court in Ohio made the same decision on a similar case in Ohio. Our haulers are not permitted to haul non-member milk or other commodities without a public utility permit.

In 1937 the laws in Pennsylvania were changed so that it was necessary for association haulers to file for permits as contract haulers. However, through efforts of this association and others, the law was amended in 1939, exempting our haulers from getting permits.

During the second World War it was so difficult to get repairs and new trucks, that we investigated the possibilities of assisting our haulers to rent trucks from rental agencies in emergencies. Since the rental agencies had similar problems and were also restricted as to trucks, gas, tires, etc., we found this not feasible.
It has only been in the last 5½ years that the Milk Producers Federation has been in the hauling business. Prior to that time we did negotiate prices or hauling rates on some of the routes. We weren't able in every instance to negotiate with haulers because we had in the Cleveland market an active attempt on the part of many handlers to discourage the federation of producers' groups and cooperation on the part of haulers.

We purchased a hauling operation 5½ years ago because our board of directors felt the need of a yardstick on hauling costs. We were at a disadvantage when we attempted to negotiate hauling rates because actually we didn't know what the costs were. After 5½ years of operation we have a pretty good idea of what it costs to haul milk.

All drivers hauling milk to Cleveland must be members of the union. That doesn't mean that many of the independent haulers pay the union scale. It does mean, however, that an organization like ours is compelled to pay the union scale straight down the line. We are perhaps at a competitive disadvantage on the cost of labor with the man who is operating his own truck. We have in the 5½ years of operation exercised considerable influence upon the hauling rates that have been charged in the market. Last year our M.P.F. members paid something over $900,000 to have their milk hauled to the market. A penny difference in the hauling rate last year would have meant more than $27,000 to our members.

One thing needs to be emphasized, and Mr. Chelquist touched upon it, and that is that it is not always to the producer's advantage to get the lowest possible hauling rate. It may result in a breakdown of trucks and a breakdown of service. That in the long run will not be to the producer's advantage. We have found this, and I think it is true in every market, that the driver of a milk truck probably has more influence on the producer than any other one individual in the market. That is natural because of the contact that he has with the producer.

These are days when producers need to be cutting costs wherever they possibly can. It is our conviction after the experience that we have had in the milk hauling operation, that considerable savings could be affected in hauling milk to the market if we could eliminate the duplication of truck routes. Loyalty of the producer to his milk hauler, and the fact that certain handlers don't want to buy milk from certain producers, and certain producers don't want to sell milk to certain handlers, serve to complicate the situation. We are of this opinion, if producers were so minded to haul, maybe not all of the milk on the market, but a majority of the milk in the market, to eliminate the duplication of truck routes, there would be a substantial saving affected. That isn't easy to accomplish, at least in our market, because of past experiences that we have had in the market. Our own experience in hauling milk from a dollar and cent standpoint has not been a profitable one. We have not attempted to make it a profitable one so far as making money on the hauling operation. We are convinced that the influence we have had on hauling rates and the increase of influence we have had when we negotiated with independent haulers in establishing rates has more than justified the investment that we have had in the milk hauling operation.

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Emerson Teal, Detroit Mich.: The Michigan Milk Producers' association started transporting milk by tank truck from country receiving stations in 1932. In this year dealers discontinued the operation of a number of receiving stations. That would have left association members without a market for their milk if the association had not taken over the operation.

Effective May 1, 1930, after arbitration uniform hauling rates were established in the market at 27¢ per cwt. for a 40-mile haul or an average freight rate of 32¢ per cwt. It was estimated at the time this reduction in freight would mean $250,000 to the producers in a year, over the prior rate. These average rates prevailed until September of 1931 when freight rates were changed to 29¢.

In March of 1933 the rates were reduced to 20¢. These rates held until September of 1939 when the rates were further reduced to 15¢. They advanced to 17¢ in September of 1941 and were reduced to 16¢ in March of 1943. The rates advanced in October 1947 to 17¢ and this rate is in effect at the present time.

The Michigan Milk Producers' association for the first two years of operation of its stations figured transportation in with station operation costs. For this reason cost figures on transportation could not be segregated. In 1934, 14,777,400 pounds of milk were transported to market at a cost of 9.36¢ per cwt. The truck units traveled 94,723 miles at a cost of 14.6¢ per mile. The average load for the year was 20,524 pounds.

The five-year period from 1935 through 1939 shows an average of 21,599,603 pounds of milk transported to market at an average cost of 8.8¢ per cwt. The units traveled an average of 100,473 miles at a cost of 19.16¢ per mile. The average load for the period was 27,943 pounds.

The next five-year period from 1940 through 1944 shows an average of 32,996,492 pounds transported to market at an average cost of 9.43¢ per cwt. The units traveled an average of 167,340 miles at a cost of 18.6¢ per mile with an average load of 30,554 pounds.

In the last five-year period from 1945 through 1949 an average of 102,697,651 pounds was transported to market at an average cost of 13¢ per cwt. The units traveled an average of 433,146 miles at a cost of 30.36¢ per mile with an average load of 34,662 pounds.

Last year 146,722,319 pounds were transported to market at a cost of 11.77¢ per cwt. The units traveled 564,661 miles at a cost of 30.88¢ per mile with an average load of 39,021 pounds.

The association hired all of its service work done on trucks until the opening of its own service garage in February of last year. This operation made additional savings.

In analyzing the cost per mile for hauling milk by tank truck, we find in 1934, the distribution cost of 14.6¢ per mile were: Drivers' wages 3.05¢, fuel 4.74¢, repairs and tires 1.66¢, depreciation 4.12¢, license and insurance 1.04¢. The five-year record from 1935 through 1939 reveals
that drivers' wages increased \( \frac{1}{2} \), repairs and tires increased \( \frac{1}{4} \) and depreciation on equipment increased \( \frac{1}{4} \).

In the five years from 1940 through 1944 drivers' wages further increased \( \frac{1}{4} \), repairs and tires increased \( 2\frac{3}{4} \), and fuel cost decreased \( \frac{1}{4} \). The decrease in fuel cost was largely due to a greater number of diesel motors in the fleet. The five-year average, 1945 through 1949, shows drivers' wages increased an additional \( \frac{1}{2} \) and repairs and tires increased an additional \( 5\frac{1}{2} \). In the last year of operation, 1949, we find this distribution of costs: 30.88\% per mile were drivers' wages 10.96\%, fuel 3.26\%, repairs and tires 9.51\%, depreciation 6.37\%, and license and insurance .87\%.

In conclusion, the cost per mile has increased 16.28\% over the past 16 years of operation. However, the cost per cwt. has increased only 2.41\%.

The association has accomplished this by increasing the size of loads and other efficiencies in operations.

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J. W. Winfrey, Kansas City, Mo.: We have four methods of handling milk transportation in the Kansas City area from the farm to the market. The first arrangement is the contact between a private contract hauler and a committee of producers on a route. The producers on the route sign a power of attorney which authorizes the committee to act for the producers on the route.

The second method is the hauler has a route with no contract with the producers. He negotiates privately with the producers on the route.

The third method is hauling cooperatives. We have three cooperatives operating in our markets. One group in the southern part of the territory where there is a large concentration of producers bought out the existing hauling facilities and has been operating now for four or five years and are going a good job of hauling at an economical rate.

The Pure Milk association organized a subsidiary hauling cooperative within the past year that has served two purposes. In one territory hauling facilities were breaking down. Producers had no way to get the milk to the market. In a new territory, a new production area the cooperatives subsidiary is trucking milk.

The fourth method we have of handling milk from farm to market is the handler owns routes and hauls the milk of producers. A small amount of milk is handled in that fashion. And it is not too satisfactory arrangement.

The association has developed a contract, a standard form of contract for the producers on a given route to use if they desire. These contracts are negotiated at a meeting in the neighborhood. The producers elect a committee to represent them in the negotiations. The committee is authorized by power of attorney from each producer on the route to act for him.
The committee establishes rates and conditions, where the milk will be picked up, whether in the can house or out on the road. That is one of the big sources of contention in our territory. One producer wants it picked up out of the milk house and the other one wants it picked up at the road.

The hauling cooperatives are doing a good job. As for the Pure Milk Producers association operations, the most important gain is, as Mr. Hartsock said, a yardstick on costs. And with association trucks it is easier to move milk from handlers with low utilization to high utilization. That, of course, is an important function of a market cooperative.

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Comments and Questions

Question: I would like to ask a question of Mr. Chelquist. I'm wondering if in his market they pool the hauling and haul from all producers?

Mr. Chelquist: No, we don't pool the hauling of all producers. We have two country plants where they equalize the hauling rates. The haulers receive different rates for hauling milk, but producers pay the average price. The theory behind that is, they are considerable distance from Pittsburgh and fellows that live close to the plant feel that they are willing to pay that average price in order to get the more distant milk or they may lose the plant.

Question: Does a route belong to the producers or the fellow that owns the truck who has been hauling the milk for two or three years? What is the attitude of the co-ops on that?

Mr. Chelquist: In 1925 when our association started to take over the routes or actually took over the routes, there was a lot of resentment on the part of the haulers that had started in 1921 with a small layout. We take the attitude that the routes belong to the producers on them. Some haulers don't like that. I think they have all come to understand that since we have been through this legally three different times and have won every case. Our haulers now recognize that the routes do not belong to them. If a hauler is "slick" and members are inactive, he can manipulate things his own way. Where the members are posted and active, they will control it.

On the cost, we maintain that the only value or investment that the hauler has is his truck and equipment. He does not own the route and he cannot get anything for it. However, routes do change hands and are priced above the value of that equipment.

During the war we had considerable trouble with haulers negotiating deals with other fellows to take the routes over. As long as the members on the route are agreeable, we let this new man take the route over. We did stop some deals because we knew the prices were so high that the new hauler would have to ask for an increase in hauling rates. We stepped into those cases and told him that he wouldn't get an increase in hauling rates. That stopped a lot of that.
Question: I want to ask Mr. Winfrey. As I recall it last year you had to do some emergency hauling. Can you tell us a little bit about that?

Mr. Winfrey: In 1948 we had some bargaining difficulties. It became necessary for the cooperative to find another outlet for milk until such time as the handlers would agree to increase the price. We had to move the milk some distance from the market, to regular manufacturing outlets.

The haulers were very cooperative in this operation. The directors of the association decided it was going to require a lot of extra time and extra cost to these haulers, so they agreed to pay them 17½¢ per mile, for this travel. For about ten days milk moved away from the market instead of into the market. We had a high percent of cooperation from haulers. Since that activity in the fall of 1948 we have had greater cooperation between the haulers and the association. They now know that the producers are paying the bill for hauling and that's very important.

Question: I would like to ask Mr. Chelquist, where producers either through committees or directly employ a hauler, how do you protect the producers' liability?

Mr. Chelquist: Our members, producers, select the hauler and agree on a rate, where he is to go and what kind of service, but the contract is between the association and that hauler. The local officials sign a recommendation and file the recommendation and hauling contract. The contract is written between the association and the hauler.

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Ownership and Operation of Processing Facilities

A. L. McWilliams, Chicago, Ill.: In Pure Milk we do both manufacturing and bottling. We have a bottling plant in Chicago and we have three plants where we manufacture milk. When operating a cooperative plant what should the objective of a cooperative be? Are we going to run these plants to make a profit? Are we going to run these plants possibly at a loss in order to get a better return for your members? We have done it both ways. We have a bottling plant which we think ought to operate on a profit, because we are competing with our customers so to speak.

We are selling milk to every dealer in the city of Chicago, I believe, with the exception of two small ones. They don't like us to be in the retail business. A lot of our producers do. Our people haven't decided whether to go into it in an extensive way or not.

We have taken the attitude for a period of time that maybe it is smarter to operate your manufacturing facilities at a loss and the same thing in trucking. We have operated our trucks at a loss because we were able to get more money for our producers by handling our business in that way. We found in one particular instance that every time we lost a dollar on our trucking business, we made 10 dollars for our producers because we were able to maintain a premium for those producers.
Now about financing. It happens to be one of our immediate problems. We are trying to cook up some way of financing our Pure Milk association that will overcome some of the difficulties, we now have or that we anticipate. We have asked other cooperatives what their experience has been. From that we will try to evolve something that will be an improvement over the plans that we now have.

A cooperative has to have stability. We take money and invest it in a plant or some other milk handling facilities. We have to know for a period of time just how much money we need. We cannot have a million dollars this year and two million next year and then have it go down to a million and a half the year after that. We can't invest money in these facilities and then be faced with the necessity some years later of having to liquidate those facilities in order to pay off producers who invested that money.

The ownership of the cooperative should be in the hands of the active members and the proportionate to their participation. I don't think that we can expect to tell every producer, at least that has been our experience, that he has to have $500 worth of stock -- or $1000, or even a $100 share. His investment ought to be proportionate to the benefits he gets out of the organization.

The method of handling capital should be as simple as possible to keep down the cost of administration. I estimate that in our own case it costs about $15,000 to $20,000 a year to take care of this capital. We are on a revolving fund basis. The capital structure must be sound financially and it must meet the needs of the organization. Some co-ops in our area have tremendous amounts of money piled up. I don't know what they expect to do with it.

A small organization west of us has about $45,000 net worth. They collect checks-off and buy government bonds. They get a little bit of interest and they refund the money three, four or five years later to their members. What's the use of paying the money in and paying it back? It is just an investment as far as I can see. Why not let the members invest it themselves in the first place?

Another problem in capitalization is how to raise it? Starting with a new organization or increasing the size of the organization you can sell stock. You do that in any corporation. Cooperatives can do the same thing.

If you sell stock, you have the problem of promotion and keeping stock in the hands of the producers who are active members. To liquidate a cooperative with stock outstanding, some of it old, may be a tremendous "mess". I know a board of directors which fears that it has some legal liability to stockholders who were not paid off as a result of liquidation. That's a problem co-ops get into when they issue stock.

Producers drop out of the market over a period of time. We have a lot of turnover in our own organizations. If you permit the member to hold stock he remains an active part of the cooperative even though he is a non-producer. I know of an instance where the producer, a substantial stockholder originally held his stock after he sold his herd. Members continued to elect him on the
board of directors because he was a stockholder. This fellow put quite a few blocks in the way of the progress of this organization, because he did not want to spend money. His objective in holding this stock was to get a dividend. We have in our own Pure Milk association the so-called revolving fund plan. I believe that it was developed by the Department of Agriculture many years ago and most co-ops with which I am familiar (marketing co-ops) have their capital set-up on this revolving fund basis.

Our capital revolves on this basis of seven years. What the producer paid in or what we saved out of our operations in 1943 we pay back this year 1950. What we save this year, 1950, we will pay back to our producers in 1957.

I think that particular method is dangerous for this reason. A good year can get you into about as much trouble as a poor year. This is why, suppose this year 1950 our normal saving will be about $400,000. Then we have a good year with our plants, our trucks, and our bottlers and save $550,000. That is something better than normal.

Seven years from now, our savings instead of being $400,000 may be $300,000. Seven years from now we have to pay back $450,000 or $500,000 out of the $300,000 we are going to collect. If that goes on for a couple of years, we are going to be in serious trouble.

We have tried to prepare ourselves against that contingency by setting aside a certain sum of money. At the present time we have about $200,000 set aside for that purpose. The difficulty, I think, is collecting $200,000 and holding it. We have the money and we can't use it because we have to have it when we make this refund to our members seven years from now.

Another objection I see to our present plan is it is too expensive. It costs $15,000 to $20,000 a year just to administer the revolving fund. Every producer's production has to be recorded every month. We have 15,000 producers. With our turnover we would probably have the records of about 17,000 producers during the year.

The revolving fund once started puts you in trouble if you stop it. It becomes a contract with your producers to pay their refund every seven years. If you want to change by lengthening the period, you have trouble.

I want to tell you about the financing plans of some other cooperatives. The Dairymen's League of New York has a check-off system which is similar to our's except that I think it is even more expensive and more cumbersome. The League takes a check off from their members. For the savings they issue certificates of indebtedness and pay interest on them. Ten years later, or whatever period of time it is, they have to redeem this certificate. To me that isn't good business to go through all the mechanics to keep capital in your organization.

Twin Cities issues stock and has a revolving fund too. Land O' Lakes creameries have a system of issuing stock and retention of earnings. This retention of earnings is the thing that is under attack by the Tax Equality League. Any cooperative which is thinking of any revision of its financial structure had better keep an eye peeled on the tax exemption problem.
Robert Schiering, Cincinnati, Ohio: The cooperative marketing of milk in the Cincinnati area began in 1916 through the formation of a bargaining organization known as The Queen City Milk Producers Association. That original organization was formed at a time when milk prices paid to farmers by dealers were very low, and at a time when it was not difficult to induce farmers to join an organization because of their belief that nothing could be worse than conditions were at that time.

One year after the formation of this organization the sales committee was unable to negotiate what they considered to be a fair price for milk for their farmer members. When all other efforts failed a milk strike was called early in 1917. That strike was finally settled by an agreement with the dealers upon a milk price which the sales committee considered to be fair to their farmer members.

At that time we were engaged in World War I and prices of general farm commodities were increasing rapidly. The efforts of the sales committee to bargain each month for milk prices which would keep pace with the general price levels were generally disappointing.

The dealers were well organized, and the largest dealers were difficult to deal with and were usually able to drive a bargain which was not completely satisfactory to the sales committee.

The bargaining association, however, could not threaten to strike each and every month, and it appeared that unless a strike were threatened that fair prices could not be obtained.

It was during this period that a group of dairy farmers in northern Kentucky formed The Northern Kentucky Milk Producers association and pledged themselves to raise the necessary capital to build a milk processing and bottling plant and to go into the milk business for themselves. That courageous group of pioneers pledged everything they had to make that venture successful. They did build a plant at Covington, and began the retail distribution of their own dairy products in that city.

That was the initial move made by dairy farmers to process and market their own milk, which later resulted in the formation and development of The Co-Operative Pure Milk association. Our organization absorbed The Northern Kentucky Milk Producers association and its milk processing facilities and within a short time acquired additional small plants in the Cincinnati and Hamilton, Ohio areas. In 1923 we acquired the business of the French Brothers-Bauer Company, the largest milk distributing and ice cream manufacturing business in the Cincinnati area.

To raise the initial capital to acquire these facilities each of our farmer members was required to invest an amount about equal to $20. for each cow that he owned, and a total of $300,000 was raised by this method. We had acquired a business with a value in excess of $3,000,000 with an initial capital investment of $300,000 or less than 10% of the total purchase price.

The stockholders of the French Brothers-Bauer company placed their stock in escrow at a bank under a purchase agreement arrangement, and we made
deductions from the milk checks of our shippers at the rate of 25¢ per hundred pounds to pay the balance due, on what might be termed today an installment plan. For these deductions our association issued Certificates of Indebtedness bearing 6% interest and maturing over a 10-year period.

In 1930 we borrowed $1,900,000 from the old Farm Board at Washington to complete the purchase, and issued special preferred Certificates of Indebtedness to the remaining group of old stockholders.

As you all remember, we were then in the midst of the depression of the early 30's. We were obligated to pay 6% interest on all of the outstanding Certificates of Indebtedness in the hands of the members, were required to pay 7% to the stockholders holding the special preferred Certificates of Indebtedness. We were required to pay 6 1/2% interest on a loan from the Farm Board, and were also required to meet the principal due on maturing coupons on outstanding Certificates of Indebtedness. Milk prices were low with the result that we were unable to make deductions for new Certificates of Indebtedness at a rate higher than 10¢ per hundred pounds on base milk and with that new capital repay principal coupons on Certificates of Indebtedness which had been issued in years when the rate of deduction was 25¢ per hundred pounds. We are sure that you can all readily understand the dilemma which we faced.

At that time we presented our problem to our membership and reorganized on a common and preferred stock basis, exchanging Certificates of Indebtedness on a dollar for dollar basis for new preferred stock which has no maturity date and which did not require the payment of dividends unless earned. We borrowed an additional $350,000 from the Farm Credit Administration successor to the old Farm Board, to pay off the holders of these special preferred Certificates of Indebtedness, making our total loan in late 1933, a total of $2,250,000. That loan has since been completely repaid. The investment on the part of our membership has now increased to $2,500,000. Dividends on all of the stock is paid to stockholders regularly, and we are in good financial condition.

We believe that the course which we pursued in our market was completely justified by our later experiences, but the load would have been much easier had we been able to secure from our membership at the outset a much larger part of the capital required to finance such an operation.

During the past year our Association marketed almost 130,000,000 pounds of milk for our members which was delivered directly by them to ten processing plants, four of which are owned by our association, six of them being operated by other companies who receive milk from our association.

The advantages of an Association such as ours are as follows

1. Assurance in the minds of the members of the accuracy of weighing, sampling, and testing. Complaints on weights and tests may still exist where a cooperative is doing all of this work, nevertheless, the shipper feels in this case that an honest mistake has been made and that this error will be corrected.

2. The market for members' milk is definitely guaranteed, and there is no possible chance of leaving milk at the gate at any time of the year.
3. There is an assurance of a fair share of the consumer's dollar. The producer is protected against profiteering on the part of the dealer.

4. Distributing cooperatives are in a better position to set the correct price for producers by having first-hand knowledge of what the distributor can afford to pay. There is a tendency to attempt to price milk to producers, and thus to consumers, too high, resulting in a reduction of sales in Class I and II milk, and consequently, a reduction in the blend price.

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Kenneth L. Stickler, Fort Wayne, Ind.: All cooperatives, especially operating cooperatives, have the problem of obtaining sufficient equity capital. Everyone knows that in the late '20's and early '30's the cooperative movement in this country sustained a considerable setback. One of the contributing causes of this backward movement was inadequate financial resources of many cooperatives. Many at this time suffered from a chronic shortage of capital.

During the 30's steps were taken by the cooperative leaders to assure adequate supplies of bank credit. The Bank for Cooperatives made it possible for cooperatives to maintain sufficient bank credit to operate. Loan capital, however, is not available unless equity capital first has been supplied as protection for the lender. The foregoing applies with equal emphasis to the expansion by cooperatives which is necessary to meet the needs of our expanding economy and increasing population and the continued growth of the cooperative movement. Equity capital must be present to make immediate expansion possible.

My experience during the last 12 years as manager of an operating cooperative has taught me how difficult it is to raise from membership of a cooperative the capital that is needed to carry it on successfully. In obtaining capital from our members cooperatives must live down the debacle of the 20's. We are appealing to a group which is by nature suspicious of subscriptions, stock certificates, shares of interest, etc.

The farmer is accustomed all his life to seeing what he has. His realities are his land, his buildings, his stock, his farm machinery. A certificate with an impressive seal on its face and its legal phraseology is a strange and unfamiliar thing to him. He is at once suspicious, skeptical and open to the wildest rumors concerning it. In the language of a salesman he is a "bleak prospect."

I have always found it hard to explain to a farmer that a stock certificate represents an investment in a business, his cooperative. That it represents a certain percentage of the sum total of that business. Many farmers I find even when they understand this, do not comprehend why they cannot have their investment in their cooperative back whenever they wish it. They think in terms of a loan to their cooperative rather than ownership of it.
This mental attitude of the farmer of course arises from the fact that generally there is no public market for the equity of most cooperatives. The cooperative itself is often the only purchaser of its own certificates.

It has been possible during the past 10 years for many cooperatives to amass an equity capital by retention of the annual savings. This, however, is not too strong a staff to lean on. If a substantial business recession occurs, this source of capital vanishes. The right of cooperatives to retain their savings for the purpose of accumulating a reasonable reserve is presently under vigorous attack by influential groups in this country. It, therefore, seems to me that all persons interested in cooperatives and particularly those interested in the ownership and operation of processing facilities should give a great deal of thought and attention to the question of equity capital.

We must make certain that in the future there will be sources of capital to draw on and that our business will not stop and gradually "wither on the vine." To do this we must by education overcome the reluctance of the farmer to invest directly in the cooperative and what the advantages are to him when he does so.

The services which the operating cooperative can render him, such as increasing his bargaining power, helping him with surplus and improving the quality of his product, etc. justify farmers providing their cooperatives with a steady source of capital. If "we get this home" we will also have permanently sold the American farmer the principles of cooperation.

* * *

Comments and Questions

Question: I would like to ask Mr. Stickler, what facilities do you have in your organization -- processing facilities?

Mr. Stickler: We have facilities to manufacture dairy products such as cream, cheese, butter, powdered milk, etc.

Comment: Mr. McWilliams indicated the evils and difficulties in the revolving fund, but I don't think he was specific in what plan he thought was preferable.

Mr. McWilliams: I have a plan but this is strictly my own plan and I cannot put this out for the Pure Milk association. In revolving funds we are paying back money to the same people that we collect it from. I say that is wrong. Let's pay back money to the people who retire. I think it is important that we keep the ownership of the organization in the hands of the active producers. I don't want to see us hold back the money of the fellow who is out of business. To give you an example our collections run between $400,000 and $450,000 a year. That's our savings. To take care of the people who withdraw from the association, takes in the neighborhood of $100,000 a year. Let's collect this $100,000 from our active members and pay back these people who are withdrawing from the association. Let's not keep paying back to the people who are still in. It doesn't make sense to take money from them and pay it back to them. All we are doing is hiring a lot of clerks and machinery and letting the farmers pay for it. Let's cut it out.
Question: How are you going to get the $100,000 you don't know in advance who is going to drop out? Do you take the $100,000 off of everyone?

Answer: Yes.

Question: Would there be any inducement for a member to cancel his contract just so he can get back his payments from the Association?

Mr. McWilliams: There might be an inducement for him to do that, if we are poor salesmen. We have to sell the farmers and I think we have done a pretty good job. We are doing a lot more for him than just taking his money. We are giving something back for the money. If a producer wants to withdraw membership because he is going to get some money back, he is not a very good member.

Question: Did you carry on that plan of repaying members who withdrew during the depression?

Mr. McWilliams: We were not in it at that time. We didn't have enough savings to pay anybody with at that time. We were just about making ends meet. We were just collecting enough to pay our expenses. We didn't have anything to pay back.

Question: You didn't pay back farmers' capital unless they got out of the dairy business -- did you?

Mr. McWilliams: If they withdraw from the organization and sell their cows then we pay them back within a year.

Question: If they drop out of the organization and continue producing milk do you refund their capital?

Mr. McWilliams: Then they have to wait the 7 years.

Question: How did you arrive at the 7-year period?

Mr. McWilliams: I was curious about that one myself. When we made an investigation on the revolving fund plan it seemed there were people paying back in five years, some in 10 years, and we thought 7 years was a pretty good place to stop.

Question: If you pay the producers off every 7 years, you would have to recapitalize every 7 years, wouldn't you?

Mr. McWilliams: We don't issue stock certificates. We send our producers a card and say: "Mr. John Jones, for 1949 so much money has been credited to your account." Every year we send a card out, we installed an IBM system so we have been able to get the thing out in a reasonable length of time.

Question: Then the producer doesn't have anything to show that he shares ownership?

Mr. McWilliams: Nothing except these cards, that's all.
Question: I would like to ask Mr. Schiering. He mentioned they had only about 10 percent of the initial cost, or 10 percent equity to invest. I am wondering what percentage of equity can be called a safe venture on a processing and handling equipment?

Mr. Schiering: Of course, 100 percent would be as sound as you could get. I would say that if we had had 50 percent of that total investment, it would have been a lot easier job than the way we did. The confidence and the interest of farmers enabled us to pay the bill. We never have had a breakdown within our own ranks -- the board of directors or membership.

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Pooling and Paying Producers

L. C. Mapp, Dayton, Ohio: Since we have a buyer's market instead of a seller's market the techniques of pooling and paying producers are becoming more interesting. During the war and in the postwar period we were able to sell a lot of milk in Class 1; and we didn't worry too much about our techniques.

Today in this pooling operation we are faced with a lot of problems. Whether we are going to solve these problems depends on several items which I would like to outline first. The success of a market-wide pool in my estimation or individual handler pool is dependent on the responsibility that dealers as well as producers are willing to take in a market in equalizing the utilization of milk, balancing supply of milk with the sales needs. That is a two-way responsibility.

At our market we do take it seriously, and the dealers take it seriously. In fact the dealers get bothered if they find that somebody else is trying to get into the market -- they get just as concerned as we are.

The next problem is the proper pricing of milk in Class 3, or the lower classes, so as to keep the producers, but more likely dealers from raiding the pool. We are up against the problem of people trying to crack into a pool that never were a part of the pool before. They want to come in to ride on the blend price. They want a free ride on the pool.

A federal order sets down certain regulations which if anybody meets they can participate. In a voluntary pool sometimes you can put some wrinkles in that you can't always put into a federal milk order. We have operated under federal milk orders for five years now and in a very satisfactory manner.

We know that if we have prices too low, it will encourage people to come into the pool. The dealers will bring producers in. One answer to this is seasonal pricing. We charge dealers, through the milk order, a pretty high price for Class 3 milk for 7 months out of the year and during 5 months
of flush production, or approaching flush, we knock the price down where we can really handle the milk. I think it has done a lot to balance supply on the market.

During the 7 months the dealer can't afford to hold the milk if he doesn't want it for Class 1 usage, he gives it up to some other dealer in the market. We get away from "have" dealers and "have nots" as far as the supply is concerned.

Another problem is the uniformity in enforcement of the health ordinances. Where multiple markets are involved in an area wide pool, the question is always coming up, does this plant at some distance meet the same health regulations as milk close to the market?

In our area we have two markets under the pool. There is not very much variation now in price to induce shippers to meet Grade A. Yet the Springfield producers are getting 20 cents a hundredweight of what our shippers in the Dayton area who are under Grade A get with us.

Another factor in pooling is whether the cooperative is equipped to handle surplus milk, or control it. They may not have to handle it physically. On these four points more or less will the success we are going to have on market-wide pools, or individual handler pools depend. Now to get on this matter of check-writing here some.

For a period of about 15 years we have been writing our members' checks, not only in plants that we operate but also in the bargaining association. Ten years of that was before we had a federal milk order and five years under a federal order. Originally we set up check-writing to get away from equalization. You always got argument from dealers, particularly on a voluntary pool, on equalization.

We took over the writing of all our members' checks and for non-members in selected plants. We bill the dealers for so much milk. There is no equalization involved. They pay us by their check and we blend the proceeds.

When the federal order came we maintained that right to pay producers, that is member-producers. There are assets and liabilities, if we want to state it that way, writing members' checks. On the asset side, the prestige and influence of the co-op is built up. It is easier to maintain goodwill of the members. Every month you have contact with them. A producer-member in our area will say when somebody asks him "Who do you sell your milk to?" that he is selling it to Miami Valley. He doesn't say he is selling it to some dealer.

Efficient marketing results because it facilitates the transfer of milk. Sometimes a producer gets in love with a certain dealer and vice versa. You try to shift these producers. You have a whale of a time. When the co-op writes his check, he doesn't worry about where his milk is going. He knows he has a market. Many producers couldn't tell you where their milk is going, what dairy it is going to.
This freedom from producers ties with particular dealers facilitates the disposal of surplus milk. If we move a load out of the market -- as long as we are writing checks it doesn't make any difference to the producer. We moved milk out this spring and the producer got the blend price the same as if he were in the market. That monthly contact is important, because the co-op gives price information every month.

In some cases we give the dealer the written privilege, of writing advance checks. In the federal order we have that legal right. In some dairies where we have high membership, we write checks for a few non-members. We have one dairy where the handler himself produces considerable milk on his own farm. We pay him for his own milk.

Writing the checks ties in with hauling. We do not have any hauling contracts now. We found a hauling contract is too often a one-sided proposition. A hauler would come in with tears in his eyes and the co-op would give in on the contract. When it was the other way round the hauler always held the co-op to it. We think we have taken care of this situation. The hauler gets his check from us. He knows it. Secondly, we operate a number of routes ourselves. If hauling costs go up on our own routes, we automatically let the rates go up on the market. Last year we made a little money hauling milk. But we don't intend to make a lot of money. We do think we should set aside enough reserve to depreciate the investment in trucks, etc.

Writing the checks enables the co-op to blend the proceeds of members. Under our contract we have to blend proceeds. It enables us to keep the capital, contribution records, Mr. McWilliams mentioned. We make a capital deduction of 1 percent to finance our organization. Our records show how much the capital deduction was each month and the accumulation up to date. At the end of the year we issue certificates of indebtedness and revolve them about every 6 or 7 years.

If the price of milk goes down, we can raise the capital deductions to possibly 1 1/2 percent rather than 1 percent, to protect the income of capital. We have had capital deductions as high as 2 1/2 percent in years past. Our producers recognize that it is not going to be one percent all of the time.

Now some of the liabilities on check writing. You have a credit risk. You have to watch the credit of dealers and keep right up-to-date; otherwise, you can get into plenty of trouble. When one dealer owes $100,000 in one month, you have to know whether he is solvent to give him that much credit. It takes a good collection department. Sufficient working capital must be in the bank in case of default. Occasionally a dealer may be a week or two slow for some reason or another. During this time we don't like to hold up our members' checks, because we guarantee them payment. We do that occasionally to put the heat on the dealer. We haven't had too much trouble with dealers in that respect in recent years.

The co-op has the additional cost of machines to do this job and postage if you mail them checks. The co-op must do a good job because
dealers /put the heat on if you make mistakes. There are always things happening. For example, we got calls from a bunch of producers who said they hadn't received their checks. A week later we found that the post office sent these checks to some town by the same name in Texas, rather than in Indiana. The letters were addressed correctly by us; but they went to Texas.

In the matter of handling surpluses, we are going to get into more extensively. We are operating a couple plants, but we are now constructing another one. This is just another leg of the stool Bob Schiering calls the "milk stool."

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H. H. Varney, Detroit, Mich.: This is the caboose of the program this morning. The best way to describe how the Michigan Milk Producers' Association operates is to explain the pooling operations in our several markets.

With the exception of the Flint market all of our larger markets operate under a base-excess program. Our producers are paid a blended base price and an excess price for all milk over delivered base. Except in Flint and some of the smaller markets in the northern part of the state, the organization assumes the responsibility of marketing and merchandising all of the milk over and above the needs or requirements of distributors in the respective markets. The organization assumes the responsibility of dispatching and merchandising each and every day any milk that is not needed on the market and diverting excess milk to manufacturing plants.

In the Detroit metropolitan market which represents the largest portion of the members we have operated on a market-wide pool for a number of years. The milk is sold to the distributors on a classified plan. We actually receive the milk from about 3500 of our own members at our own receiving stations. The payroll of those producers goes through our own office. For the rest of the members in the Detroit market, distributors who receive their milk at their receiving stations or their bottling plants, handle that payroll.

We have a market-wide pool. The pool is handled through an office which is under the supervision of the producers' equalization committee, which is a hangover from the days of milk orders and has been operated under the supervision of a committee selected from the Michigan Milk Producers' Association. The distributors have an opportunity to sit in each month and go over the operations of the pool. An auditing staff clearing through the producers' equalization committee has handled the supervision and calculation of the pool and the auditing work. The computation of the pool, the credits and debits for the various dealers clear through the producers' equalization committee.

In the Flint Market we operate an individual handler pool, and each distributor handles his own payroll and pays a blended price to all shippers shipping to his plant. This is the only market we have on an individual handler pool. At Battlecreek, all of the milk is cleared through the association office. The entire farmer payroll is handled through the association.
Diversion of the milk not needed in the market is handled through there. Milk is sold to distributors under a classified plan. The collections are made in the local office. In Mt. Pleasant, one of the newer small markets, we have a plan similar to the one in Battlecreek.

At Grand Rapids, Muskegon and Traverse City milk is sold on a plant requirements basis, a simplified classification plan. Instead of negotiating Class 1 and Class 2 and Class 3 prices, we negotiate a price for all of the milk going into the plant. In the Grand Rapids market we do have four distributors that have some manufacturing operations. Those four distributors get milk for manufacture at the manufactured price but must submit to an audit at regular intervals by association auditors. In Grand Rapids, the entire farmer payroll is cleared through the association office, at the blended base price and excess price. Muskegon producers are paid by the distributors on a plant requirement plan. Diversion of milk is by the association and we collect for it and then settle with the distributor after the pool has been calculated, but the distributors pay the producers direct.

At Traverse City the association handles all of the transportation of milk diverts all of milk that is not needed in the plants and at the present time is handling the payroll of about two-thirds of the producers.

Saginaw, Bay City and Midland have been more or less short supply markets. We have the base and excess program in effect in those markets. Over a period of several years we have negotiated a price for 100 percent of base milk delivered to the distributor. Bases had no tie-in with sales. For everything above the delivered base the producers received excess price. Increased production brought the amount of delivered base far in excess of sales. Saginaw market is going under the classified plan and a market-wide pool similar to the one in Detroit and Battlecreek. In the other two markets some modification must be made. When a distributor receives more base milk than his sales, he is going to do one of two things. He will either drive the price down in bargaining sessions or else he is going to say: "I can't take the milk any longer."

Since the organization guarantees the market, we will have to find a market for the producers.

Conditions vary between markets. They vary from time to time in the same markets. Many of you know that we have gone along in Detroit and operated successfully, on a voluntary arrangement. Now we have a proposal for a federal order in Washington. The challenge we have before us is to be constantly reviewing the situation and analyzing the market, and be willing and ready to anticipate the problem so we make the change before too much damage is done to the market.

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Question: I am interested in the statement that Mr. Varney made -- we are going to have to do something to regulate production. How do they allocate bases to the individual farmer? On what basis?

Mr. Varney: We have a set of rules for establishing bases on each market. Generally speaking it is production during the last five months of
the year. We have one market, I believe, that takes the last five and drops the producers' low month out of the five. We arrive at his daily base by dividing the full production of the five months by the number of days.

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Report of Committee Verifying Weights and Tests of Producers' Milk

G. E. Dickson, Chicago, Ill.: I will give a brief summary of the discussions held by the committee of the Midwestern Milk Marketing Conference, review some of the papers given at previous conferences, enumerate some of the advances that have been made, and point out some definite recommendations for future activities.

It is a privilege to have served as chairman of this committee for the past three years, and we wish to thank the officers and members of the Midwestern Milk Marketing Conference for the time allotted to these discussions.

Some may ask "Why should we discuss weights and tests?" in a milk marketing conference which deals with pricing? A Yank might retort with another question, "What good is a price unless you have a method of accounting for the number of physical units sold, by correct weights and tests of the butterfat in the milk sold?"

For example, the monthly average receipts of milk from the producers on the Columbus, Ohio, milk market is 17.3 million pounds. If an error of one point or one-tenth of one percent is made in testing this milk with the Babcock test, the producers would lose $13,840.00 per month or $166,080 per year.

We are aware that failure to refrigerate composites will cause a drop in test of as much as .3 of one per cent. It has been a pleasure to work with this committee, which originally consisted of T. H. Binney, Associate Chief in Dairy Husbandry, Creamery License Division, Purdue University, Lafayette, Ind.; C. F. Christian, Extension Economist, Farm Marketing, The Ohio State University; Prof. E. O. Herreid of the Foods Technology Department of the University of Illinois; Frank H. Osborn, of the Falls Cities Co-op Milk Producers' Association, Louisville, Ky.; Paul W. Scherschel, of Pure Milk Association, Chicago, Ill.; Don M. Swartz, formerly of The Ohio State University, and now with the U.S.D.A. at Washington, D.C., and Emerson Teal, Supervisor of Testing and Quality Control, Michigan Milk Producers' Association, Detroit, Mich. Later C. E. Schumacher of the Cleveland, Ohio, Market Administrator's Office was added to the committee; and this year we drafted Prof. Louis H. Burgwald of The Ohio State University who will later give you a short discussion of "Standardizing the Babcock Test for Milk by Increasing the Volume of the Sampling and Eliminating the Meniscus on the Fat Column."

In addition to the above our program has been assisted by H. H. Erdman of the Federal Milk Market Administrator's Office, and J. W. Winfrey, of the Pure Milk Producers Association of Greater Kansas City, who gave stimulating papers at the 1949 conference.
Review of Previous Conferences

The members of our committee presented papers at the 1947 conference, and the summary of Prof. C. G. McBride can well be quoted here:

"Frank Osborn stressed the difficulty in Kentucky of getting a representative sample from the weigh tank. The construction of the tank is important as well as the method of taking the sample.

"C. F. Christian reviewed the experience in Ohio in the supervision of samplers and testers by the Department of Agriculture. He raised the question whether state supervision as now conducted is an adequate protection to the producer against either fraud or incompetency on the part of samplers and testers.

"Don Swartz presented data showing a wide variation as to responsibility for testing programs and the procedures followed in sampling and testing. He also gave some data on costs of testing in some Ohio markets.

"Paul Scherschel reported on an extensive comparison of tests in the Pure Milk Association of Chicago in which it appeared that there was about an even balance between the results with composite and fresh samples when all samples were in good condition.

"Emerson Teal of Michigan Milk Producers expressed a distinct preference for fresh samples. He admitted that there would be a greater variation in individual tests but maintained that fresh sampling gave the producer a better opportunity to find the cause of test variation. He also advocated rotation of testers among plants.

"Professor Herreid of the University of Illinois stated these as known facts:
1) Dumping in itself does not give an adequate mixing of milk.
2) Tanks with agitators are needed.
3) Composite samples, if properly taken and cared for, are accurate as to butterfat content of milk.
4) It is unsafe to assume that inaccuracies in testing will offset and result in an accurate average.
5) State regulatory staffs and the industry must work together to insure an adequate testing system."

At the 1948 conference held at East Lansing, Michigan, Emerson Teal outlined their procedure of taking five fresh milk samples as a basis of fat payment to producers.

P. W. Scherschel outlined some deplorable conditions found in identification of sample bottles and producers milk cans.

T. H. Binney gave some results of experiments showing improper care of composite samples, and concluded:
1) Samples should be refrigerated at about 50 degrees F.
2) If placed in plant refrigerator, avoid contamination from water dripping from ceiling on bottles.
3) Avoid carrying or agitating samples to cause churning.
4) Have plant designate a responsible plant employee in charge of samples.
C. F. Christian gave a summary of the complexity of rules and regulations in the various states' regulations, and stated "There may be 13 different ways of mixing milk, all effective. But this maze of conflicting directions raises the question, where did the legislators or the officials of state department of agriculture get their technical advice?"

Frank H. Osborn outlined his "Methods of Checking Producers' Milk Weights." His cooperative owns 15 pairs of portable platform scales, which are changed from one member to another every 30 or 60 days, and the milk handlers know that the producers have this means of continually checking on the handler's weights.

Prof. E. O. Herreid discussed the "Problem of Obtaining Representative Samples of Patrons' Milk from Weighing Tanks." He concluded: "The results reported indicate that milk is not mixed sufficiently in the dumping process to insure that representative samples can be consistently obtained from the common types of weighing tank. With the built in agitator showed the least variability in fat tests."

At the 1949 Conference Held at Madison, Wisconsin, Frank H. Osborn in his "Progress Report of the Committee on Testing of the Midwestern Milk Marketing Conference" gave specific recommendations in sampling, caring for samples, and testing by the Babcock method.

P. W. Scherschel in his subject, "How can the Fat Test of Milk in the Tank Truck Be Verified?", believes it possible to do a sampling and testing operation that will have an error of less than .5% total butterfat in a month's operation. He recommends that all tank trucks be agitated thoroughly at least 15 minutes before a sample is taken.

H. H. Erdman, of the Chicago Milk Market Administrator's Office, in "A Brief Statistical Report on Butterfat Tests of Milk Based on Random Fresh Milk Sampling" discussed the method developed by the Chicago office to verify the amount of butterfat received from producers by using stratified random samples.

J. W. Winfrey, of the Pure Milk Producers Association of Greater Kansas City, discussed "The Results of Adding Mechanical Agitators to Weigh Tanks." His paper certainly cautioned milk technicians to check every weigh tank installation to be certain that a representative sample is being obtained.

Advances that have been made in the past three years include:

1. It is gratifying to note that different state regulatory bodies are requiring that handlers keep composite samples refrigerated at about 50° F.

2. The State of Wisconsin has adopted the 8% Sealed Babcock test bottle instead of the 10% bottle formerly used.

3. Experiments are now being conducted on a 6% Babcock test bottle which will give butterfat readings to a fraction of a point (.1%)

4. A committee of the American Dairy Science Association has developed a modification of the Babcock test which should permit more accurate reading by increasing the volume of the sample and eliminating the meniscus on the fat column.
Recommendations for future activities:

1. All states should require refrigeration of producers' composites.

2. Develop better methods and more accurate devices for accounting for the weight and butterfat test of milk. Example: Test bottles; reading devices.

3. Develop a method to insure the honesty and competence of the milk technician whose duty it is to sample and test milk or its by-products. This applies to employees of federal, state and municipal regulatory bodies as well as milk technicians employed by producers' milk cooperatives, and handlers.

4. Have each state require weight tanks to be guaranteed by the manufacturer to give a representative milk sample. Our definition of a representative milk sample is a sample whose test checks with that of a sample taken after the milk has been thoroughly stirred.

5. Check all installations of mechanical samplers to insure delivery of a representative sample of milk.

6. Federal, state and municipal regulatory bodies should review and correlate their regulations. (I refer to C. F. Christian's review of state regulations in which he points out 13 different ways of mixing milk prescribed by different states)

7. These regulatory bodies should be encouraged to strictly enforce their regulations. To illustrate: Michigan, Indiana, Illinois and Wisconsin regulations require that a representative sample of producers' deliveries be taken for composite purposes. However, in each of these states, cases have been found where it was impossible to get a representative sample from the regular sampling hole provided by the manufacturer in the top of the weigh tank, without additional agitation -- and the additional agitation was not being done by the handler.

Let's apply an analytical eye to all testing and weighing operations so that we can improve our technics and eliminate inefficiencies.

* * *

A New Babcock Test for Milk

L. H. Burgwald, Columbus, Ohio: I am pinch hitting for Dr. E. O. Herreid of the University of Illinois, chairman of the committee on Babcock tests of the American Dairy Science Association. I am a member of this committee. In view of the fact that he couldn't come to the meeting, he asked me if I would present this material. You know that there has been no change made in the Babcock test since its inception in the 1890's, other than going from a 10 percent bottle to an 8 percent bottle.

When Babcock originated the test in order to make correction for the amount of residual fat that remained behind in the acid mixtures, he advocated that we read fat column from the bottom of the lower meniscus to the top of the upper meniscus. The difficulty seems to arise with reference to where is the top of the upper meniscus.
We have found in experimental work in having different people reading the same tests, we will get quite a variation in actual readings and recordings of these tests.

It has been demonstrated by a number of investigators that the regular Babcock test yields results that are on an average of 0.06% higher than those obtained by the ether extraction method. It is also known that the ether extraction method includes in addition to the milk fat, a portion of the phosphatides. Consequently the ether extraction method gives results that are slightly higher than they should be. However, the error is small for milk as the amount of phosphatides present in average milk are less than 0.04% and not all are extracted by the test.

The need for a revision of sampling procedure is also necessary. Fresh milk is sampled at a temperature of 60-70° F but preserved composite samples require heating to 95-100° F. in order to obtain a homogeneous mixture, and they are pipetted at that temperature. If they were to be again cooled to 60 - 70° F. before pipetting, partial churning would very likely take place and cause inaccurate results.

Keeping these factors in mind the committee consisting of Herried of Illinois, chairman; Herrington of New York, Jack of California, and Burgwald of Ohio determined how much the elimination of the meniscus would reduce the Babcock test as compared to the ether extraction method (Mojonnier test). This was found to be 0.06 per cent. On a 4% fat milk, the sample would have to be increased by 0.36 grams

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0.06 \times 18 = 0.36.
\]

This would mean that the pipette must deliver 18.36 grams instead of 18.0 grams as at present.

The amount of milk adhering to the pipette when samples were heated to 95-100° F. was found to be 0.13 grams. Making a total weight of 18.36 + 0.13 = 18.49 grams of milk the pipette held for the modified test. Sp. Gr. of the milk was found to be 1.025 at this temperature (18.49 / 1.025 = 18.04). A temperature of 95-100° F. was used because preserved samples must be pipetted in this temperature range.

On the basis of this preliminary work, the following procedure for the modified Babcock test was adopted for experimental work by the committee.

1. Heat milk to 95-100° F. and mix by pouring from one container to another 3 or 4 times.
2. Use pipette calibrated to hold 18.05 ml. when upper surface of milk is on the graduation mark on the draw tube.
3. Allow pipette to drain for 10-15 sec. after emptying and blow out last drop.
4. Add sulphuric acid (Sp. Gr. 1.82 - 1.83 at 20° C.) at 70° F. Will require 15-17 ml. depending on strength. (Cooling milk in test bottle to 70° F. may be desirable before adding acid.)
5. Proceed as in regular Babcock test.
6. Add 2-3 drops of glymol as each bottle is taken from water bath at 135-140° F. Measure fat from bottom of column to fat glymol line.
This method was then compared with the MoJonnier method as follows:
1. Milk was heated and mixed as above.
2. Using a 10-gram moj. pipette, it was weighed directly into a
tared extraction flask.
3. Then the regular MoJonnier procedure was used.

The results obtained by five collaborators on a total of 135 fresh
samples and by three of these collaborators on 50 samples of preserved
samples indicate that the modified test is accurate.

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Comments and Questions

Comment: I think we should point out that if the modified Babcock
tests were universally adopted by the industry that the farmer would lose
½ to 1 percent of butterfat. That's the way it looks to me.

Mr. Burgwald: I imagine that would be compensated for in the price of
milk. Farmers and producers organizations should be alert to the importance
of accurate determinations of butterfat.

P. W. Scherschel: Results we have obtained are that the butterfat con-
tent of skim milk is often sufficiently low so that it is not readable in
the regular Babcock test. With the addition of N-butyl alcohol (Circular
630 University of Illinois by Dr. E. O. Herreid) we have obtained up to
.02% readings. Then the analysis of the skim milk powder has yielded near
.06% butterfat content, which shows we do not get all the fat out of the
skim milk on the Babcock test.

Literature states that there are about .03% phospholipids in milk.
(Journal of Dairy Science, October 1943, "Phospholipids in Dairy Products.")

For experiment, we have used the N-butyl alcohol in testing whole
milk. These results have given butterfat content .2% higher than regular
Babcock procedure.

Reports are available of MoJonnier showing higher butterfat content of
milk than by Babcock. One example reports MoJonnier .054% higher than Bab-
cock (Journal of Dairy Science, December 1946, "Babcock vs MoJonnier.") I
do not believe we get all of the fat in the Babcock test for whole milk.

Comment: The point which we overlook is that there are billions of
pounds of milk bought and sold today in the United States on the Babcock
test. It is pitiful to go out in some of the plants and see the kind of
testing that is being done. Composites are heated to 125°-140° and fat
boiled off and yet the farmer is being paid on these kind of tests.

Mr. Burgwald: The only thing I'm trying to present here is there is
a more accurate method for taking the Babcock test, by eliminating the
meniscus. I think the meniscus is a big factor in the errors in the Babcock
test.
Comment: I am not opposing changing or improving our accuracy. We have gone a long way and we have a long way to go yet to increase the accuracy of the procedure we are now using. I have been accused in the past couple of weeks of reading producers' tests too high and causing a plant loss in butterfat. Investigations proved that the plant tester checking their butterfat missed this butterfat reading by 2, 3, and 4 points. We need a lot more education and a lot more training for these fellows who are verifying tests on the procedure we have, rather than trying to teach them something new.

Comment: We find the weigh tank itself will give a sample which varies from 1 to 7 or 8 points from the sample we bring in from the farm. I would like to have the folks go away from here a little more conscious of weigh tanks that cannot be sampled accurately.

Frank Osborne, Louisville, Ky.: There's a caution in running the modified Babcock test. If you add glymol too far ahead of reading it will mix with the fat and the test will be more inaccurate than the method we are now using. There's another problem that has just arisen. It's a matter of mechanical shakers. There's a new one on the market. It is giving anywhere from 1 to 4 points below because of inaccurate shaking, not enough shaking or something.

Charles Shumaker, Cleveland, Ohio: We have Cherry-Burrell shakers, which was the only shaker on the market until recently. Our experience with the other shakers has been that we get no better results with it than with hand shaking, in fact not as good as hand shaking. The Cherry-Burrell shaker makes the composite check more closely with the average of daily fresh samples.

* * *

Maintaining Good Working Relations between the Cooperatives, Market Administrators and Land-Grant Colleges

R. W. Bartlett, Urbana, Ill.: There are three things which we can think of in connection with this topic. First, we have to have a sympathetic understanding between the groups. There is a good starting point. The college should go out of its way to have a good working relationship with the cooperatives and the market administration. College people should go out of their way to bring about meetings, and bring about questions which are facing these groups and get open discussion.

Second, the question which seems to me basic to good relationships, is that of having a clear understanding among the groups of the principles in pricing market milk. I know at the federal order hearings at Chicago a little while ago, some of the people from New York were there. They asked, "Why is it the farmers around here aren't mad at the dealers? We saw a farmer talking with a dealer a little while ago."

One of the reasons is the adoption of sound principles of pricing milk. Prices of Class 1 milk in Chicago went from $1.99 in September, 1939, to $5.26 in August, 1948. Now the price has gone down about $1.50 a hundred automatically under a federal order.
This condition is in sharp contrast to the situation that existed in World War I when we had strikes after strike all over the country back in 1916, 17, 18. With rising price levels the dealers refused to let the price come up with the price level. I want to review four principles.

"Both milk and cream for any market should be produced in areas where transport costs are the lowest." The essence of that is that milk should be produced and marketed where it can be produced most cheaply.

I asked a class in dairy marketing: "Why shouldn't we build a wall around Champaign-Urbana to keep out all milk other than that produced locally?" Let us apply that same principle to clothes. We have a glove factory in Champaign-Urbana. We don't have any other factory for underwear, suits, or anything. If we applied that same principle to clothes, we would all be wearing gloves. The reason we have a high standard of living in the U.S. is because we follow this principle in most goods. It seems to me that the same thing holds for milk as it does for clothes, other foods, furniture, houses, etc.

The second principle: "The price for market milk (Class 1) should be established by federal order so that it automatically goes up and down in line with some dynamic factor, such as prices of manufactured dairy products, consumer income or farm prices." That is what I was discussing a moment ago in regard to the pricing in Chicago and 29 of the 35 federal order markets. There are six federal order markets which have rigid prices that are in a hell of a mess. Where they have maintained price relationships in line with competing products the market is in a healthy condition. Where they maintained monopoly prices as in some of the eastern federal order markets, they are in a fix.

Third point, "The price for market milk should be established at premiums above prices of manufactured dairy products sufficiently high to get a blend price which will encourage enough but not too much milk to meet market needs. Floor-prices of manufactured dairy products should be kept as high as practical to prevent Class one prices from being too high and to prevent dealers who have a large volume of surplus milk from having unfair advantage over dealers whose purchases are usually for Class 1 uses."

I am not going into the question of what constitutes a blend price high enough but not too much. One of the boys working with me just finished his doctor's thesis, a study of the federal order markets. He showed that at Chicago the blend price for 1920-1948 averaged 44 cents a hundred pounds above the condensery price. Condensery is the competitive non-order price, from 1920-1948. That 44 cents of course applies in this area to the country plant zone, a 70-mile zone. The F.O.B. market would be about 32 cents higher.

In the St. Louis market since August 1, 1949, they have incorporated a flexible premium, where the premium automatically increases where there is too little milk. There has been a short market in St. Louis for 10 years. When they put the premium into effect in August, it increased the premium from $1.35 up to $1.55.
The fourth point, "Since it is uneconomical to produce large quantities of Grade A or other high priced milk to be manufactured into lower price surplus products, premiums paid for Class I milk above prices for manufactured dairy products, should be larger in months of low production and smaller in months of high production to encourage an annual production more nearly in line with market needs, and should be raised on an annual basis if there is too little milk to meet whole milk requirements and lowered if the blend price results in too much milk in the shortage months. It is not good sense to produce a lot of Grade A milk that has to be thrown into surplus as a non-Grade A product.

I am going to repeat ten points here that I gave last fall at the Farm Bureau meeting. Inferred in these points is the application of the principles of milk pricing.

1. Increase per capita sales of milk 25 percent to the 150 million American consumers without government subsidy. Expand the per capita sales of cream, ice cream, butter and evaporated milk.

2. Bottling of a minimum of 50 thousand quarts a day in each cooperative plant, handling market milk. We are just completing a study of costs of market milk operations. This recommendation is based upon results of this study which will be released within the next six weeks.

3. Reduce processing and distribution costs two or three cents a quart; pass savings on to consumers to lower prices. As an example: In Champaign-Urbana, two years ago milk was brought into the market from Chicago where the dealer was paying the Class I federal order price. The Chicago milk sold at 2¢ a quart to stores less than our home delivered price. Some 2-quart paper containers were offered at a reduction of 2¢ per quart. That caused quite a lot of confusion at first. Some older dealers particularly didn't like the competition. The local farmer didn't like it. The president of the local farmers' association asked me: "What are we going to do about it?"

The dealer said: "You take half of it and we'll take half." That was typical dealer reaction.

I suggested to the president that they keep the Class I price as it was and tell the dealers to do two things: First, that they were getting the same resale price and were paying the same Class I price as in Chicago. If Champaign-Urbana didn't want the milk, send it to Chicago at the same price. Second, suggested that they introduce a federal order into the market. Per capita sales in Champaign-Urbana in 1948 were 4 percent above 1947, and for 1949 they were 8 percent above 1947, presumably resulting from lower price milk to the consumers. I think that if we are going to prevent some of these things the government enforces on people, we should clean our own house and do the job on a free enterprise basis.

4. When milk in any market is abundant during shortage months maintain Class I prices in line with manufactured dairy products.

5. One point I would like to see this group think about, to promote legislation to require that the minimum butterfat content be labelled on every bottle of milk sold. Introduction of the paper container and homogenized milk in the past 10-15 years in my humble opinion has resulted in lower-
im the fat content of milk going to consumers. If every bottle had a minimum label, I think competition would increase the butterfat going into Class 1 milk at least two tenths of one percent.

6. Iron out seasonal variation in production in market milk areas. Initiate use of flexible premium over the basic formula prices, such as an now in effect at St. Louis to encourage more uniform production.

7. When necessary extend federal orders in which prices are geared to supply and demand conditions into other markets. Federal orders have been accepted by both producers and dealers in most markets in the country where they have been used. I think within two or three years all of Illinois will be covered by Federal orders for our important cities.

8. Make definite efforts to improve public relations with dealers who buy cooperative products and with consumers. We have gone by, it seems to me, the fighting stage of cooperatives. I mean we don't have to fight for certain things. Our energies should be centered upon selling more milk, more Class 1 milk, higher blend price.

9. Use of subsidies to maintain soil fertility, and protect farmers against disaster years and unduly low prices resulting from speculation. I am in favor of floors on dairy prices, farm prices generally. I am also in favor of floors on certain conditions of labor.

10. Defeat any government plan which assumes that every year is a disaster year for farmers and gives to a few people in Washington controls for straight-jacketing operations of every American farmer, crippling farmer cooperatives and lowering standards of living for American consumers.

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A. W. Colebank, Chicago, Ill.: The general topic for discussion today is "Maintaining Good Working Relations between the Cooperatives, Market Administrators and Land-Grant Colleges." In discussing the relations between groups interested in the fluid milk program, I am going to confine my remarks primarily to the relationships that exist between cooperatives.

The cooperatives are responsible for the fluid milk program in any market. They request the Secretary of Agriculture to issue an order for a particular market, determine whether the order is achieving the purposes for which it was issued, and can have the order suspended or terminated merely by petitioning the Secretary to do so. They represent the farmers, and an order is issued primarily to aid farmers. The order fixes prices which must be paid to farmers which reflect certain economic factors, and establishes more orderly marketing conditions for the sale of milk which in turn increases producer returns. Consequently, the relationship that exists between cooperatives is one of the most important considerations in this program, as far as the relationship between groups is concerned.

In establishing the law under which milk orders are issued, I believe it is fairly safe to say that practically all dairy cooperatives sponsored the
legislation. Yet, when it comes to developing a program in a particular market, we find cooperatives violently opposing one another on various issues that arise. We see cooperatives in one section of the country opposing cooperatives in other sections of the country at public hearings on various order provisions. These conflicts between cooperatives become especially acute in discussions of prices and returns to producers at public hearings, although these conflicts are by no means confined to those issues. Why do these conflicts arise and can these conflicts be reconciled?

I believe that there are two principal reasons why differences between cooperative groups generally arise in the establishment of an order under the Marketing Agreement Act. First, that there is a basic difference in philosophy (or conflict of interest) between cooperatives in the establishment of prices or other provisions under an order; and second, that there is a lack of knowledge of the facts or general understanding of the problems involved. Either or both can cause major conflicts between cooperative groups. These conflicts may be between cooperatives operating in the same market, or between cooperatives operating in different markets or different sections of the country.

Let us briefly discuss the first point, namely, a difference in philosophy or conflict of interest between cooperatives. In the development of an order many issues arise which cause this conflict of interest between cooperatives. These conflicts may involve bargaining cooperatives on one side and operating cooperatives on the other; nearby producers in a market as compared to the interests of producers farther from the market; methods of pooling returns to producers; and so on. Just to make my point, I will discuss two situations which frequently arise.

With respect to prices under an order, differences between bargaining and operating cooperatives may arise concerning the establishment of prices to be paid by handlers for surplus milk. Producers who are members of bargaining organizations receive payment for their milk in the form of the uniform or blended price announced each month with no prospect of additional returns at the end of the year from the handlers to whom they are delivering milk. Consequently, the bargaining organizations are interested in maintaining a relatively high price in the order for milk used in the manufacturing classes. By this I do not mean that bargaining cooperatives want surplus milk handled at a loss, but that there isn't much profit in the operation. This policy increases returns to producers by increasing the blend price and at the same time discourages plants from coming onto the market just to use milk in the manufacturing classes at a profit and dilute the pool with unnecessary surplus.

On the other hand, producers who are members of operating cooperatives not only receive payment for their milk deliveries in the form of the uniform price announced each month, but many of them receive additional payment at the end of the year which represents the profits or savings of the organization on actual operations during the year. These cooperatives are interested in relatively low prices in the order for surplus milk if they have any large quantities of milk used for this purpose. A lower price for surplus milk will increase the profits or savings of the organization and likewise increase the amount of money received by producers as patronage dividends at the end of the year. The interests of these two groups are not the same and differences arise because of this conflict of interest.
Differences arise between cooperatives in particular markets with respect to pooling, that is, whether the order should provide for a market-wide pool or an individual-handler pool. The position a cooperative may take on this issue depends upon whether it would pay money into the pool or draw money from the pool.

Differences between cooperatives such as those noted above are differences in cooperative philosophy, or conflict of interest. The only hope for reconciling these differences is complete understanding and discussion of the issues involved, and in many cases I do not believe these issues can be reconciled. In the order itself, these conflicts are resolved by the Dairy Branch through the final decision of the Secretary of Agriculture. But I think all of us will agree that this is not a particularly happy way to solve the problem, especially for the Dairy Branch.

The second main point I want to make is that differences between cooperatives arise due to lack of understanding of the problems involved or the lack of knowledge of the facts concerning a particular problem. I believe this is the more serious cause of differences because conflicts of interest may become less real when all parties have a complete understanding of the facts concerning the problem. It is in this field that the Land-Grant Colleges can be especially helpful to cooperatives and to the program generally. By performing research on specific problems and through discussion of the various issues, the specialists at the Land-Grant Colleges can aid the industry in having a better understanding of the problems involved. The facts about the order program can be developed, and the implications of regulatory policies can be analyzed. Analysis of the policies involved and understanding of the facts will lead to decisions from which the full benefits of this program can be realized by producers. It is extremely important that all farmers and all cooperatives understand what this program can do and what it cannot do; otherwise the whole program will be weakened.

On this point all of us are familiar with the recent attacks on the fluid milk program by a group of midwestern manufacturing cooperatives. This attack centers mainly on the pricing policies of the fluid milk cooperatives, both with respect to the level of Class I prices and to the level of surplus prices in the federal milk orders. The fluid milk cooperatives in the east are organizing to meet these attacks. But somewhere in this controversy there is a lack of understanding of the facts, a lack of knowledge of conditions which leads to misunderstanding. It is probable that all of the differences could not be reconciled by a thorough and open discussion of conditions by both sides, but I am sure a lot of the misunderstanding which exists could be eliminated by an understanding of the facts. The responsibility for securing this understanding rests with the fluid milk cooperatives. It is their program that is being attacked. They need the support of all cooperatives, and they cannot expect to get this support unless the manufacturing cooperatives understand their problems.

Differences between cooperatives in formulating policies under this program appear to be much more numerous and vocal at the present time than was apparent during the war or pre-war years. Part of the explanation may be due to the fact that many fluid milk markets were extremely short of milk during the war and immediately following the war. The supplies of many plants which had not formerly supplied milk and cream to fluid markets were drawn on to meet this demand. Then as the local supply of milk became sufficient to meet the demand, the outside supplies of milk and cream were not needed. In some areas these
plants became handlers under the fluid milk orders, such as in the Chicago market. Some of the plants which have entered the Chicago market in the last few years no doubt did so because they had lost fluid milk and cream sales in other areas. Other plants were once handlers under orders, left the markets when sales of milk and cream were good in other areas, and have since reentered the order markets as handlers. All of these situations have created problems between cooperatives. These problems were not so acute before the war, but many more cooperative members have enjoyed the relatively higher prices that come from sales of fluid milk and cream. Losing these sales means going back to lower manufacturing milk prices. In some cases large investments in plant and equipment have been made to supply fluid markets. And some of the cooperatives are blaming the federal orders for the loss of these markets. I seriously question that these accusations can be proven, but they are being made and are being believed by persons who are not fully informed. Here again, the need is a complete understanding of the facts, and this can be accomplished only by a thorough discussion of the various problems involved by all parties concerned.

If this program is to continue, all of the cooperatives must work together to obtain the long-run benefits which this program can give to producers. Not only the cooperatives must work to this end, but all leaders in Agriculture, including the colleges and the government. We must understand what this program can do -- and what it cannot do. Under this program, producers can be protected from the short-run and seasonal price collapses that so frequently occur in fluid milk markets. We can largely prevent the effects of handler price wars in the resale market being passed back to producers. We can assure accurate weighing, testing, and accounting for milk. We can secure needed market information. We can provide for the equitable distribution of returns among farmers, and we can maintain conditions under which farmers can produce and market their milk with assurance that they will not be subject to exploitation, or to unfair or dishonest practices in the market place. This program cannot maintain prices at uneconomical levels, now can it enforce restrictive devices of one kind or another as substitutes for necessary price adjustments.

It is through meetings such as this conference that progress can be made toward a better understanding of this program and of the problems facing the industry. Here you have representatives of fluid milk cooperatives, manufacturing cooperatives, Land-Grant Colleges, and the government. There is no simple answer to these problems, but all of us will be better informed after hearing the views expressed by other people. We may not agree, in fact, we probably won't agree, but at least we will have a better understanding of each other's problem.

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Richard L. Duncan, Louisville, Ky.: I learned my first lesson in cooperation the hard way. As a boy not weighing over 100 lbs. I was given the job of running a three-horse sod plow. We plowed with mules. A darkie in our neighborhood called them "jarheads." I soon found out that I was not strong enough to lift the plow around at the corners, and that I had to depend upon the cooperation of these three "jarheads" to pull the plow around. So the team would pull up to within about a foot of the end of the land and then I would bear down on the handles and they would pull it around and start down the furrow again.
In our relationships of cooperatives to colleges and market administrators, we have a three-horse team. I wouldn't want to infer, as my market administrator is here, that they are "jarheads" -- because I have great respect for him.

Each of us in our various fields have interests which combine, although our main responsibilities are along definite lines. The cooperatives' responsibility is principally marketing, services to members, and a heavy responsibility of explaining to our members and giving them the story and the reasons why certain moves are made.

The market administrator is charged with the responsibility of carrying out the technical provisions of a specific legal instrument. He too has a responsibility to distribute information and to make certain interpretations, calculations and audits and etc.

At the colleges the responsibility is mainly teaching, research and extension, under the broad provisions of the laws which created them.

The three groups have responsibilities of distributing information in their respective setups and working together, in an advisory capacity, for the well-being of farm people. To some extent we can say that all three are working for the same man.

I would not go as far as to say that each should pull the chestnuts out of the fire for the other group.

One of the best examples that we have seen in the past few years, I don't know whether or not you will agree with me, or not, was the work which was done in the formulating the Boston formula. The colleges, the co-ops, and the marketing administrators work together as a three-horse team.

There should be a clear understanding between these three agencies. Each should do his own job and not be offensive or embarrass the other two.

The market administrator can contribute a great deal of data. His records are a price history, production history and sales history of the market. He can, without putting one foot in the farmer's cow pasture, or a foot into the college classroom, give important facts which should be presented to the other groups.

We should, and I am wondering if we are doing it to the fullest extent, utilize the information which the market administrator makes available to us in his report. I know that the market administrators are accommodating in going into certain questions which you might bring up. It is true that they will not give confidential information, on individual dealers. The market administrator can guide the cooperatives regarding procedures, interpretations of specific clauses and act as a liaison agency between Washington and the group which represents the farmers. He is a necessary link between the two groups in the market.

Let's discuss next the co-ops in relation to the colleges. It is mandatory by law that the college work with cooperative organization. However, we do not work that way (by compulsion) in our state. We cooperate, each helping the other as far as possible.
The co-ops can pass on to colleges problems which are well adapted to research. We could divide these roughly into two divisions, short-time research such as certain information which we might want the college to prepare for use at a public hearing. But more important is the long-time research on which we can build sound programs. Such research may take the colleges a year or two to formulate for us.

We appreciate that the colleges have to be ethical; and they won't go as far sometimes as we would like them to. They must remain just outside of the inner circle of cooperative organizations nor can they put themselves in the place of co-op employees. They can get information which the cooperatives cannot get.

We want to continue to get that information. In order to do that the colleges have to treat the information which they get as confidential.

We sometimes make a mistake in pressing our colleges to complete their work in too hasty a fashion. With their projects, we should give them plenty of time. They have other projects on which they are working at the same time as they are working on our particular project.

Colleges like to give their information all at the same time to all people through bulletins. Probably that is the most practical way for that to be handled.

I have noticed a few occasions, not many, where our college men anticipate the results of their research a little too soon and make remarks or announcements before they have finished their work. That might prove embarrassing to them and it might give cooperatives and other people false impressions regarding their conclusions.

Our employees often tell me that I would not make a good research man. That I always make up my summary first and then go out and build up my facts to support my summary. They say I do the whole thing backwards.

We look to colleges to train men for our future employees. That's the best source that cooperatives have of securing new men for their organizations. I was asked one day what the college could do to make their students more valuable to cooperative organizations. I told them I thought the best thing they could do for the students was to start them out to sell maps for about six months; let them get some sales experience opening doors and learning how to meet the public. My criticism regarding students when they get out of college, is that they haven't sold maps long enough. The co-ops need dairy marketing specialists at all times. We like to feel also that the colleges have a high estimation of cooperative organizations. We would like them to have a high opinion of our particular organization. These men contact lots of people. Many times they could set our members straight on certain problems and on certain issues and take a lot of heat off of the co-ops. Some day the present trend, and I am speaking about economic and political trends, may turn; the worm might turn. The pendulum might swing the other way. We have all been interested in the last British election to see how the pendulum can swing back a bit on nationalization, socialism, back to self-
reliance and free enterprise. Someday that might happen in America. Then there might have to be an alternate to take the place of government agencies. If the co-ops' shoulders are broad it might be asked to accept heavy responsibilities which were formerly taken care of by other agencies.

The cooperatives must keep our lamps trimmed and be ready for whatever comes on our markets. On our relationships with the marketing administrator, and the colleges and we have no criticism whatsoever to make.

Our college worked a year and a half on the history of our market going into various phases of association work and the effects of certain association policies upon the membership. The college men visited as high as 20 percent of our membership to get a cross section of member reaction.

We have in our market what is known as the "Louisville Plan" which is seasonal pricing and incentive to take off of the producers' pay a certain season of the year to build up the price for another season of the year. Our college has made a study of the plan, published a bulletin on it.

Two years ago we pestered them considerably to give us a study and see if we could in our local market adapt our pricing policy to a Boston-type formula. There was an old song twenty years ago "When You Get What You Want, You don't Want It." After we saw the results of their work we don't want in our market a Boston formula. That's not a criticism of the Boston Formula in Boston. It wasn't adapted to our particular set-up and their research showed it conclusively. The college is keeping current records of influences on production in our market. One of the college staff members visits our market approximately once a month, or every two or three months.

As a whole, co-ops have received a great deal more help from the colleges, and from the marketing administrators, than we give them. Maybe that's due to our bargaining set-up, we try to out-bargain the other side in our industry. In the early days of our organization when Mr. McQueen was president of the Pure Milk Association of Chicago, we leaned very heavily on this organization. They sent men several times to our market and spent days and days helping us out. We never have forgotten that. When some southern markets called on us for help we have gone all the way to be with them because we remembered the help which we got back in the days when we didn't know which way to look. As I see it, the colleges, the co-ops and marketing administrators can help out the new markets that are applying for marketing orders and those markets which have no marketing organization.

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Howard G. Eisaman, Cleveland, Ohio: I should like to make my contribution to this subject of maintaining good working relations between the co-ops, the land-grant colleges and market administrators by saying that "I'm fer it!" and sit down. We should also include the distributing element of our industry. With the passing of each succeeding day there is more necessity for closer relations between the four elements in the dairy industry. The cooperation with which the land-grant colleges, the cooperatives and the market administrators are performing their functions have preserved, at least contributed materially toward the preservation of, the free enterprise system in the production, sale, and distribution of milk.
I can remember an experience I had back in Pennsylvania, when I was a much better Democrat than I am now. Then I worked at it. There I had to, to keep my job. Of course I am just as good a Democrat but I don't have to work at it. I remember a distributor, a very fine fellow, very energetic when he had a nickel under his foot. I don't know whether you ever saw a distributor that way or not. But they are hard to deal with, when someone is trying to push them off the nickel.

I was serving as chairman of the milk control commission. That was back in the early days when we were blazing trails and we found that we had been making a lot of mistakes. There was much pressure brought on me to do certain things. I refused to do them, following the dictates of my own judgment and the counsel of my associates on the commission. To add further to the pressure, this dealer put a $1.00-democratic dinner button in this buttonhole one day and induced the state secretary of the party to call me into conference. It was on the 20th floor of a bank building.

The dealer explained his problem to the secretary. I explained mine. We got nowhere. We just argued. I paced back and forth across the room and stopped at the window, and I saw a couple of taxi cabs on the street. I called them over and I said "Do you see those cabs down there?" The dealer said "Yes". I said "I don't know when this is going to happen, but this is my guess, if you and your colleagues persist in the policies which you are defending here today the day is going to come in this city when they will license you guys just like they license taxi cab drivers."

The reason I said that and the reason I believe it may come yet, if there is lack of cooperation among the people who are interested in continuance of the industry on a free enterprise basis, is because there is probably nothing with which you and I deal that is more charged with public interest than is milk.

The farmer is more conscious of price changes in milk. You can start a revolution easier out in the country with milk than with any other product. I saw the co-op manager from Youngstown here just a few minutes ago; and he will bear me out on that. There's a little revolution going on there right now.

I attended one of their recent meetings at Youngstown and a few days after attending that meeting I saw that hogs were selling at the lowest price in the Cleveland since 1946. You never heard a squawk from anybody.

Nothing affects the consumer more than the price of milk. I have listened to lady delegations plead for the poor starving children in the city, just because someone decreed that we had to have another cent a quart in order to maintain the industry on a profitable basis. That's why I think it is highly essential that we should have this cooperation and understanding.

I mean full cooperation. I concur with what Andy Colabrun said about the co-ops. It might be well for them to learn to co-op among themselves before they are too insistent about the market administrator and the land-grant college cooperating.

But that is a very difficult thing where you have for one market 3 to 6 co-ops interested in the same market with diversified interests, one a bargaining co-op and another an operating co-op.
I have long been a believer in organization and have preached it most of my life. Someone told me early in life or I read it early in life that the progress we make with humankind is always made with the combined efforts of men expressed through some organization. I believe in producer organization. I believe in dealer organization. I think that the two of them promote stability, particularly in the milk market field.

How shall a marketing administrator cooperate? A marketing administrator should be conscious of the extent of his functions. He is administering a big thing, a program which reflects the economic market.

That economic concept and philosophy is evidenced in the record on which the officials of the dairy branch find their facts. The market administrator is in effect administering in that particular market the concept of somebody else's philosophy and policy. That's the way it should be.

A market administrator should cooperate with the co-ops in every conceivable way so far as supplying the co-op with the data on the production and distribution of milk.

The market administrator is in a better position to know fully all of the facts surrounding the production and the distribution and movements of milk than any one co-op. I don't think that it should be the policy of the market administrator to sit down with a co-op board and try to influence the co-op board, about the price they should go after.

It is enough for the market administrator, to do as I recently did not only for dealers, but also for co-ops, at their request made a study, of ice cream prices in Ohio. We discovered with the exception of one other market Cleveland had the highest ice cream prices in the state of Ohio, with the natural result that we have a wonderful price but no market. To that extent I think a market administrator should function, but not to determine a policy.

Economic needs of the agricultural industry gave rise years ago to the legislation that gave us the land-grant colleges.

The economic needs of the dairy industry resulted in the agricultural marketing agreement act affecting agricultural commodities.

I don't know anything about land-grant colleges, but I think their function should not be that of a policy determining organization.

When the federal milk marketing program moved into Cleveland, as far as I know it met its most vicious attack on the part of the distributors, who misunderstood it and thought that dire results were going to happen if an order were inaugurated in Cleveland. It was my privilege to conduct the referendum.

The co-op which has long been serving in the Cleveland market, the producer co-op, wanted an order and did everything in conformity with the act of Congress to get an order. They did everything within their power to honestly and sincerely acquaint people with what their concept of an order would be and how it would work, and to what extent it would be beneficial.
I was a stranger in Cleveland during those days. I naturally went to the county agents for assistance in conducting a referendum. For the most part the ballot boxes were placed in county agent's offices.

When the votes were counted and the Secretary decreed that sufficient majority had voted to enable him to make the order effective, I was very sorry to know that that favorable vote was obtained in spite of some county agents, who are a part of Extension of land-grant colleges.

Someone poisoned them poison that if we had a federal order in Cleveland free enterprise days were over. We were headed to bureaucracy. We were going to straight-lace farmers.

Farmers are no more straight-laced now than they were then.

I know of incidents where, not the county agent, but his assistants advised inquirers when they came in to cast their ballots: "If you have any respect for your independence vote 'no'."

That's what I mean by agencies, such as land-grant colleges or market administrators attempting to determine policy. That policy was already established by the co-op. They wanted an order. I think in such cases it is the function of the marketing administrator and land-grant colleges to cooperate in the fulfillment of that policy, and not for the land-grant colleges to tell the co-ops what their policy should be.

It seems to me that the fellow who milks the cows, the fellow who is hopping on and off a milk wagon knows better than the market administrator or anybody else what are the economic needs of that particular market. My experiences with the land-grant colleges particularly in Ohio has been most pleasant. We have had, I think, wonderful cooperation from the people here at The Ohio State University. I have tried to cooperate and I know that Fred Issler over the years has cooperated very wholeheartedly with them, and they with us. They have made available all of their resources in research as a result of the requests of the co-ops of this state. I think they have done a wonderful job in some of these studies. The contribution they make at our hearings is very material and valuable to the co-ops and to the industry. The colleges are in a position to present acceptable data, far-reaching data on costs of production.

I don't think a market administrator or a land-grant college should worry themselves too much about what is going to happen to the co-op. The co-op will take care of that. Let us cooperate but don't let us try to determine a policy or the program.

* * *

Comments and Questions

Question: I'd like to direct a question to Mr. Eisaman. If a farmer or a farm group asks a worker of the land-grant college his opinion, unbiased, honest opinion, on something that involves a public policy, just what do you want him to say: "I have no opinion;" or "I agree with the policy laid down by the Congress and carried out by the federal agencies?"
Mr. Eisaman: I think it is very obvious if that kind of question is asked by an individual farmer or a group of farmers the representative of the land-grant college should tell his opinion. Under the democratic processes in America, I may be wrong in this, but I think whatever Congress does (and I don't mean every act but over the years) reflects the economic needs and the economic demands of the people. I don't think that land-grant colleges should concern themselves about that. That is what we elect Congress for.

Question: Do you mean by that that college should have no program of education relative to public policy?

Mr. Eisaman: No, I don't mean that at all.

Question: What do you mean when you say that the colleges have no concern about it.

Mr. Eisaman: I mean this. I don't think that it should be the function of the land-grant colleges, when something is proposed to conclude right off that the American farmers are going to be in straight-jackets up to their necks. I have too much respect for the American farmer to think anybody can put him in a straight-jacket.

Comment: When we look at the history of legislation of the United States over a long period of time, we find good legislation and bad legislation. The so-called blue laws made years ago were the opinions of people, when passed, and later became obsolete. Most of the time the researcher has opinions based upon very careful study. When he expresses himself usually it is an expression of fact and not of opinion. We are making a study right now of the effects of a base surplus plan in Chicago. We had a civil war between dairy farmers in Chicago in October, 1935. The farmer fought the farmer cooperatives. We haven't reached the final conclusion, but based on our studies so far it is indicated that the trouble was caused by defending marketing quotas that were unequitable. One group of farmers was preferred over another group of farmers. We can make a contribution in the study of marketing quotas in current legislation by pointing out: In 1935 we had civil war, between farmers in the Chicago shed. The cause of this based upon our analysis was building an iron wall around the Chicago market. Enclosed within the walls were good people and outside the walls were bad people. Our conclusions from that particular study are that most of the opposition to base-surplus was caused by holding down production. Our conclusion as I see it should be given to the public and given to the farmers. Rather than passing ordinances which tended to favor one group against another. The biggest criticism of our colleges is not in presenting information, but in not going in deep enough with research to help answer questions. I'll agree that it would be silly to express opinions about things of which we had not made proper study. But from the viewpoint of molding ideas, we should understand that we have had some bad legislation as well as some good legislation.

Comment: Mr. Eisaman's position makes him lose sight of the fact that legislation is not always the result of the unanimous decision of the legislators. Some legislation is directed from an upper source for strictly political reasons, rather than necessarily for the public good. The solution lies
in recognizing that legislation is a compromise. In the land-grant colleges, and other colleges, we have scientists in all fields who are able to make studies, reach conclusions and publish conclusions. My biggest criticism of the land-grant colleges in the last ten years has not been Mr. Eisaman's criticism, but my criticism has been that there has been growing fear in the land-grant colleges that their source of income will be adjusted from Washington and that the individuals within that college will have their decisions and their reports more or less guided by the funds that will be forthcoming.

College personnel should express their opinions. If five different guys express their own opinions and have separate opinions, and have them based soundly, I would want the farmers of our state to hear those five separate opinions. If it means going into Extension institutes and advising farmers that the policy that has been adopted is fraught with danger, I think that it is the function of that university. The moment we assume that everything that emanates from Washington is the gold standard and that we shall not deviate from that line, then we are in serious trouble as a democracy.

Comment: College men are many times called to testify in federal order hearings. Several times I have been asked by the attorneys, "Are you a proponent of this particular proposal?" My answer has always been that we never are proponents for any proposal that is being made in a hearing. We do whatever may be done to cooperate with factual material, organize it for a presentation. Sometimes we have spent a good many months preparing the material that somebody thought had merit. Sometimes it hasn't even been sent to the hearing. For example, we worked quite awhile on a base-surplus plan in reverse for Cleveland, to put in the dairymen's proposal. It never got that far. We have rendered service, we think, in preparing and analyzing that sort of proposal. The colleges have a definite obligation to anybody that is composing material for a hearing. Distributors often come to us for this type of analysis which they use in presenting their testimony. That is our obligation to render that service. We don't under any circumstances agree to go into a hearing as a proponent of any proposal either by distributors, by producers, or by the Dairy Branch and they all put proposals into these hearings.

* * *

Fluid Milk Pricing

H. F. Simmons, Detroit, Mich.: Sometime ago I was invited to participate in the panel discussion at this Midwestern Milk Marketing Conference, on the subject of pricing of fluid milk. When the invitation came it indicated that because we were operating under a voluntary system I should discuss the advantages and disadvantages of pricing fluid milk under a voluntary program.

I consented to do so but a great deal of my time since then has been devoted to the preparation of a federal order for the Detroit market, which would indicate that my present thinking was that the disadvantages of a voluntary system outweigh the advantages.

Before we start the discussion on advantages and disadvantages of the voluntary system of pricing milk, perhaps it would be well if I take a few
minutes to identify and describe the organization which I represent - the Michigan Milk Producers' association. The association was organized in 1916 and at that time was operative in condensery areas only.

During the first World War milk producers in Michigan found the condensed goods price advancing materially, without an adequate price change to them for their raw product. This caused a group of the producers in the vicinity of Howell, Michigan, to form the nucleus of the Michigan Milk Producers' association which spread to most of the manufacturing plants over the state.

Earlier than this the Detroit market was organized in a rather loose organization known as the "Detroit Milk Producers' association." These two organizations later merged and the effort of affecting price changes seemed to largely center around the fluid milk markets where efforts apparently were more effective than in the condensery sections.

At the close of the war condensery prices declined and efforts in the direction of trying to affect condensery prices were discontinued.

In 1923 dairymen in the vicinity of Flint observed that the Detroit producer prices were materially higher than theirs and sought assistance in organizing. This group also materially affected their price by their organizing, and later other markets such as Grand Rapids, Muskegon, Battle Creek, Saginaw and Bay City, all requested assistance and were organized. More recently some of the smaller markets such as Midland, Mt. Pleasant, Traverse City, Petoskey, Charlevoix, and others, have come into the Association.

Also in 1923 the Association, finding a problem of handling surplus milk, organized what is known as the "Michigan Producers' Dairy company" under a separate corporation, but the state association carried a substantial amount of the voting stock. The purpose of this was to manufacture the surplus milk from fluid milk operations in Detroit. The Producers' Dairy Company, however, took on manufacturing milk and the city of Detroit began growing so rapidly that further expansion was abandoned until 1933 when old line concerns were closing up manufacturing plants. Farmers in these areas asked assistance from the association and plants at Sebewaing and Standish were added. These plants presently have a manufacturing capacity of approximately 700,000 pounds of milk per day.

Until 1933 the association operated strictly as a bargaining association in most all of its markets, with the distributors who purchased the milk being directed to pay the bargained price directly to its members. For the most part this is still true with a few exceptions. In the case of Grand Rapids and Battle Creek markets, the local associations have always collected the money from the distributors on all sales and have paid the farmers directly.

In 1933 major Detroit companies, finding they had too much milk, closed up a large number of receiving stations and smaller companies laid off loads of milk or individual farmers to a point where the association was forced to take over receiving stations and a manufacturing plant. They have since operated these plants. The trend has been for all of the smaller companies to cease to operate receiving stations and secure the milk directly from the
association in such quantities as they daily need, with the association for the most part delivering the milk to the creameries with its own transportation equipment.

In some instances the creameries go to our receiving stations and pick up their own requirements. All farmers who deliver milk to these receiving stations are paid by the association. Buyers who have our members deliver milk to their own plants still pay the farmers whose milk they receive.

In 1933, because of the excessive supply of milk and the chaotic condition of the market and the passage of the Milk Marketing Act by Congress, the association sought and secured in almost all of its markets, milk marketing agreements. I think there were 11 of them in Michigan. In 1937 most of these were cancelled because the Department of Agriculture felt that they lacked enforcement authority, due to these markets being considered intra-state, with little interstate commerce existing.

In 1939 a state milk marketing law passed the Michigan state legislature. This went into effect in August 1939, and orders from the state Milk Marketing Commission remained in effect until December 1940. The constitutionality of the act was attacked by some distributive agencies and on a technicality it was declared unconstitutional by the supreme court. A new state law was passed but the same distributive agencies had this referred to the people for vote and it was killed by the referendum. Since that time the Michigan Milk Producers' association in all of its markets has relied entirely upon its own efforts in connection with pricing and marketing the milk of its members.

In the Detroit market classification prices have been negotiated with the understanding that the market would be pooled, to the end that every dealer pay for his milk in accordance with its utilization and every producer who is a member of the association receive the same blended price for base and excess milk. This was brought about by a market-wide pool and auditing arrangements whereby the association audited the purchases and sales of each distributor. Each distributor was directed to pay the blended base and excess prices. In the event that by so doing his payments exceeded his utilization value, the association reimbursed him. In the event that he, by paying the blended price, paid less than his utilization value, he was directed to pay the balance to the association.

The association also paid its producers the blended prices and in the event that it paid more than its classified sales to its distributors, then it drew from the pool. If it had paid less, it paid into the pool.

The association established what was known as an "Equalization Committee" from its sales committee, and held monthly meetings during the latter half of each month. All participating distributors were notified of the meeting. The chief market auditor presented a complete analysis of the purchases and sales of every distributor and of the market as a whole, which also showed the amounts distributors were to pay in or draw out of the pool and whether or not those buyers, who were supposed to pay in, had done so.
It was a wide open book so far as all distributors of the market were concerned. This had a tendency to lend confidence to the situation. This has operated very smoothly during this entire period of time.

Arriving at classification prices, however, did present a considerable problem at times. When general milk prices were advancing, distributors were inclined to be reluctant to yield to the economic changes; however, for the most part we were pretty much in line with most other markets operating under federal order or state control, particularly in any of the midwestern markets.

Meetings were held with the distributors and all of the arguments as to why prices should advance were presented to them. Distributors on the other hand presented arguments why they should not, largely centering around the consumers' interest in the matter. When manufacturing prices declined rather rapidly the situation, of course, was reversed. Our people were, however, able to induce the distributors to advance the price further, even after the first decline in manufacturing prices. As these declines continued more and more pressure, of course, was put upon the sales committee for adjustment.

Since our arrangement with distributors, historically, has been that the old price prevails until a new agreement has been reached, the association was in the advantageous position of being able to postpone reductions by merely declining to agreeing to the change.

Distributors, however, usually persisted in calling additional meetings until it would become imperative that something either be done by agreement or submitting the matter to arbitration. Distributors' threats to demand arbitration usually resulted in some adjustments being agreed to. This negotiation process has resulted in rather wide margins existing between the fluid milk price and the manufacturing prices in our markets. Presently this difference is $1.43 per cwt. although at times the difference was as high as $2.50 or more.

Factors taken into account in negotiating are:
Local market conditions (economic and pertaining to milk market)
Condensery prices.
Prices in other fluid milk markets.
Cost of production.
The relationship between other products the farmers have to sell and milk prices.
The relationship between the milk farmers are selling and the things they are buying.
Attitude of consumers about prices.

The association for the most part has had a very cordial relationship with its distributors and for the most part these meetings have been friendly. However, in the course of the discussions, and we might use the word "argument", they sometimes become rather heated. Some things are said on both sides that are to be regretted. The situation may be likened to the Shakespearean character who was caused to say, "The evil men do lives after them; the good is oftimes interred with their bones."
Some of the harsh statements that have been made may cause eruptions that may have lasting effect.

It has been the writer's experience that dealers are not too much concerned about what price they pay, as they say, as they are over whether their competitors are able to buy milk cheaper than they.

Since about 10% of the Detroit market is bought outside the association these distributors were able to adjust their producer paying price much more quickly to changing conditions than the dealers who were buying from the association. This was particularly true when the supply of milk became considerably larger than the fluid milk requirements of the market and the price on that portion that was manufactured became low, thus causing a rather wide difference between the blend price of all milk and the Class 1 price. Many of the buyers who bought outside paid on the basis of the association blend and purchased, as nearly as possible, what they needed for fluid sales only. Some, however, went into outside areas and bought in competition with the condensery prices.

In summarizing, it would appear that the chief advantages in operating and pricing fluid milk under a voluntary system is that adjustments possibly can be made a little more quickly than under a federal order where hearings are necessary, this, providing the two groups—producers and distributors, can work harmoniously together.

At times it is not necessary to have price changes as frequently as occur where milk is priced according to a manufacturing formula. On various occasions during the last several years manufacturing prices fluctuated widely during the year and fluid milk markets operating under those formulae found frequent consumer price adjustments necessary, both downward and upward.

In our markets where prices were fixed by negotiation many of these sudden changes were avoided and even better than average prices were obtained for the producers, and consumer reactions to rising prices were avoided.

The chief disadvantage of this plan is that distributors who are not buying from the organization find it advantageous not to change their prices upward when they possibly should advance to producers and who take advantage of reducing the prices when it is possible but not necessary, thus creating a competitive and chaotic condition in the market. That is the situation we are presently facing.

* * *

Matthew M. Wallrich, Shawano, Wis.: This is the fifth annual meeting of the Midwestern Milk Marketing conference. I believe it is pertinent to ask—

What progress have we made in the marketing programs for milk during this five-year period?

What use have cooperatives made of the tools that have been fashioned by the national dairy organizations during this period of postwar adjustment?
Is it possible to establish a sound national program for milk marketing to produce a balanced dairy economy?

I am going to try to keep this presentation on a realistic and objective basis. Let us try to evaluate the results that have been accomplished and try to properly apportion the credit for these accomplishments.

All of us are selfish individuals and we have all learned that in a pressure economy, pressure must be exerted. The other precept that we have learned is to divide and conquer.

The Marketing Agreement Act of 1937 was recognized as having certain latent potentialities that its Congressional authors did not suspect, even though the proponents may have had the foresight to include these provisions within the framework of the act.

Fortunately for the producers of the Eastern markets, leadership of an outstanding quality was available, both within their cooperative organizations and in the larger distributor groups. These men had the vision and foresight to recognize the problem and the ability to have incorporated in the marketing structure the necessary feature to implement their objectives.

What were these objectives?

1. To avoid the postwar collapse of milk prices that was experienced at the end of World War I.

2. To provide a more intensive land utilization for dairying to permit their producers to shift from basic crops that were profitable during World War II period.

3. To acquire additional market outlets in areas being served by the rugged individualistic farmers and their marketing organizations that refused to recognize national economic and political trends.

4. To accomplish these objectives, to use enhanced prices permitted by closed markets to subsidize the sale of milk, cream, and dairy products into open markets, and still retain for their producers an above average return for their milk during this period of exploitation.

How successful have these men been in reaching these objectives?

In the feature articles of the February issue of Metropolitan Milk Producers News, Dr. H. P. Young, under the title "The Proof of the Pudding" takes justifiable pride in the over-all accomplishments. In this article Dr. Young outlined the over-all strategy at the hearing in early 1949, as:

"That Class III milk should be priced in such a way as to recover for our producers' cream markets and cream outlets in the ice cream trade that had been lost to cream and butter producers outside our milk shed."
Result - again quoting from Dr. Young:

"From June to December 1949, sales of cream to the ice cream trade, to upstate New York, to Philadelphia, to New England and to other cream outlets increased over the sales in the same months of 1948-51 per cent."

Dr. Young could have gone into the exploitation of adjacent fluid milk markets which was also conceived as a proper utilization of the act to acquire for a group of aggressive producers markets previously served by other producers, producers by the way, who failed to hire the right type of leadership.

The eastern leadership several years ago went into a huddle and decided that fluid milk prices should be divorced from manufactured prices. This was splendid strategy, because they all realized that Congress would not hold dairy products at any realistic level, and that most of the leaders and spokesmen for dairy products would be against even parity prices for butter and cheese. Like in human relations, incompatibility leads to divorce. To keep it neat, Boston appointed a committee which came 'up with the department store index. New York appointed a committee. Philadelphia selected another committee. The appointment of committees was, of course, the master touch.

Formulas were devised to hold prices stable, without forcing the secretary of agriculture to use a dollar and cents differential, which might have awakened the mid-westerners.

The master stroke was the finding of the New York Committee:

"In contrast to the inability of handlers of milk in a fluid market to sell extra quantities of milk for fluid use, without causing disproportionate price reductions, extra quantities can be made into manufactured dairy products with little effect on the prices of such products. \(**\) This condition makes it possible to increase the income of producers in a city milk shed through control of price and utilization."

We need not comment on the lack of realism in this academic statement. Each of these committees did the job that was expected of them, and each laid the ground work for a subsequent Dairy Branch finding.

The device, however, that was most helpful, was the pricing of out of market milk, referred to in New York as Class IC. The recent recommended decision in New York justifies this device as follows:

"It appears desirable to establish a Class I-A price which will contribute toward the assurance of an adequate supply to meet not only the requirements of the New York market, but also the requirements of those markets which regularly obtain a portion of their supply from New York pool plants."

In other words, New York consumers in the marketing area shall be milked to contribute to a subsidy to permit New York operators to undersell producers furnishing adjacent markets.
To demonstrate how less well the mid-west groups look out for their own interests, let us see what the Dairy Branch had to say about a similar proposal for Chicago. Both decisions were issued at about the same time.

"It was found *** that substantial quantities of milk approved for the Chicago market are sold in outside areas. *** It was found also at that time that the price effective under the Chicago order should be such as to induce a supply adequate to meet the regular demands of the Chicago market, but not to fulfill the requirements of outside markets. If milk produced primarily for Chicago is permitted to be sold in outside markets at less than the prices prevailing in the marketing area, the result is a subsidizing by the Chicago market of the outside sale. *** It would leave an undesirable 'dumping' effect on the outside market."

I am indeed sorry that I cannot praise the foresight and vision of the mid-western leaders as easily and justifiably as I can the eastern leaders. I think part of the difficulty is the reliance that mid-westerners have placed on government. This is especially true of our mid-western cooperatives. They have believed that the colleges or the government would come to their rescue and protect them from the cruel, cruel world. They are today paying dearly for this naive approach.

The milk order program is today regulating the price for 140,000 producers. We have approximately 1,000,000 dairy farmers. The milk order program has resulted in tremendous good. It can be destroyed by a stroke of the pen. Fluid milk cooperatives that have leaned on government regulation, as well as those who have led the government, would face temporary disaster if the program was eliminated. The large dairy companies learned long ago that producer groups are 'top dog' in a deficit market, and vice versa. Chaos would result, and producers and legitimate dealers would be at the mercy of unscrupulous buyers.

The present technique of pricing cannot continue; benefiting as it does a small percentage of producers to the direct detriment of a vast majority of dairy farmers and all the consumers.

What then, is the answer, for an answer must be found. The solution is not simple, and it may hurt - but it is clearly spelled out in the creating act.

Congress has spoken, and it has only been by clever manipulation that the true intent of Congress has been diverted to serve the purpose of the fortunate few at the expense of the people generally. The act is specific. Its statement of policy speaks of commodities in the "National public interest." Subsec. 1 of Sec. 602 authorized the Secretary to "establish and maintain such orderly marketing conditions *** as will establish prices to farmers at" parity. Subsec. 2 is restrictive - "Authorizing no action under this title, which has for its purpose the maintenance of prices to farmers above" parity. Subsec. 5 (g) of Section 608c prohibits geographical discrimination. Sec. 18 permits "in emergencies" as a result of a public hearing the temporary abandonment of the parity concept.

Since that enactment, the Congress has enacted price support legislation establishing certain minimum prices to be paid for milk for manufacturing.
It would appear as the express policy of Congress that Class I prices shall not exceed the modernized parity, except by an emergency measure to alleviate an impending shortage. That Class III prices or prices for manufacturing shall not be less than the parity equivalent price.

The resolution adopted by the St. Paul committee sets forth a plan and pattern that would not be harmful to any group, and would alleviate the criticism and possibly preserve the federal order program. The resolution reads:

"WHEREAS, the postwar adjustment in the dairy industry has resulted in a dislocation of prices and a disruption of regional production patterns, and

"WHEREAS, the Congress of the United States has deemed it necessary to enact a flexible support program for dairy products in order to permit an orderly reduction in production to the levels of domestic demand, and

"WHEREAS, there has been an unfortunate lack of coordination between the administration of the support program and the milk market order program, and

"WHEREAS, this failure to coordinate these two assistance programs has resulted in disastrous losses to midwestern dairy producers, -

"NOW, THEREFORE, BE IT RESOLVED: -

"That the Secretary of Agriculture issue a statement of policy to guide the dairy industry in its future operations, and that the Secretary is urged to include in such statement the following conditions to continue for the duration of the effective support program on dairy products, to-wit:

"I. The prices established for the classifications of milk in the fluid or protected categories shall be directly related to the prices established for dairy products under the support program, with proper recognition given to the differences in quality requirements and the incentive for level production.

"II. The prices established for the classifications of milk used to produce manufactured dairy products shall be at a level equal to the parity equivalent price to producers of milk for manufactured products in the area regulated. Allowances for inter-plant handling or to adjust for special market conditions shall be separately and specifically provided.

"III. Federal milk orders, either by express provisions, or by the use of accounting techniques shall not result in a charge on "outside milk or fluid dairy products" which results in an unearned increment to local or regulated producers. It should be enunciated as the policy of federal milk orders that the free movement of milk and fluid dairy products is encouraged, and it is in the public interest to assure the maximum use of wholesome milk in fluid channels."
Eastern leaders deserve the thanks and loyalty of their members for the manner in which they have utilized all the tools of their trade to strengthen their position and exploit their neighboring markets. They have done an outstanding job, and as a lawyer and craftsman, I bow humbly in their direction.

I believe, however, I can pay equal homage to John L. Lewis, and the splendid job he has done for his members, with the aid and assistance of the government. Let us hope that for both groups the electorate will continue blissfully asleep.

* * *

Earl E. Warner, Delaware, Ohio: Dr. Fred Lininger of Pennsylvania State college could not be here today to speak as a member of the Philadelphia Class I Price committee. The chief reason that I am here in his place is that I live only 20 miles away. Dr. Lininger as chairman of the committee, might have been able to speak for, but I as a rank-and-file member will undertake to speak only for the committee.

What I shall try to do is to give, as best I can, some of the background for the work of the Philadelphia Class I committee and for the recommendations which it made. The appointment of the committee grew out of interest in, and resistance to, the idea of developing a formula for fixing the Class I price in Philadelphia.

In the beginning, most of the interest in a formula was in the Dairy Division in Washington, and most of the resistance to a formula was in the Philadelphia market, and in the Pennsylvania Milk Control Commission at Harrisburg. The fact that no formula is in effect in the market today is clearly a reflection of continued opposition to the formula idea.

Some degree of interest in a Class I formula has existed in the market for several years. A hearing on a proposed formula was held in Philadelphia in February, 1943. That formula, proposed by the Dairy Branch, contained the following factors: (1) the monthly rate paid hired farm labor in Pennsylvania; (2) the average price of a standard dairy ration at Philadelphia and Lancaster, Pa., and Baltimore, Md.; (3) the U.S.D.A. index of prices paid by farmers for all commodities; and (4) factory payrolls in the Philadelphia area.

Many reasons were brought out at the hearing for opposing, or at least delaying, the adoption of this formula. There was testimony in opposition to any formula; there was strong dealer testimony in opposition to this formula, which they called a cost-of-production formula. Dealers suggested as an alternative a formula based on quotations of prices paid at condenseries. Producers were critical of this proposal of the dealers, although it was pointed out that 17 of the 22 milk markets then under federal orders were using Class I price formulas, all based on the price quotations for manufactured dairy products or the prices paid farmers for milk at manufacturing plants. They asserted that none of these 17 formulas took specifically into account certain important factors mentioned by the Marketing Agreement Act of 1937 for the determination of reasonable prices to milk producers.
Producers admitted, and demonstrated, that fluid milk prices in the Philadelphia market show a relationship with manufactured dairy product prices over long periods. But they insisted that the short-time relations between the Philadelphia Class I price and condensery prices should not be as close as the short-time relations between fluid milk prices in midwestern markets and condensery prices.

They emphasized that in a system of administered prices it is the avoidance of short-time maladjustments that is important. This lack of close, short-run relationship, producers urged, was due to such supply and demand forces as important regional differences in weather and other production conditions and variations in the degree of consumer prosperity in different fluid milk markets.

They also mentioned with a good deal of pertinence the fiction which they asserted has too often characterized quotations of manufactured dairy product prices and of prices paid at condenseries.

Producers expressed concern over the possibility that a Class I formula based on manufacturing milk price quotations might enable dealers to gain unfairly at a time when abundant milk supplies in the midwest would drive the Class I price down, yet high consumer incomes in Philadelphia would enable resale prices to be maintained on a comparatively high level. The contention that such a situation would in due time correct itself did not satisfy the producers, because, as mentioned before, it is the temporary maladjustments that they expect an administered pricing system to prevent.

The Philadelphia Class I Milk Price committee was faced with this question: "What are the objectives of a program of administered prices?" The committee concluded that there are two major objectives: (1) the prevention of price maladjustments, and (2) the adjustment of prices among competing markets.

The committee found several examples of periods in which "hind-sight" indicated that the Class I price in effect was not justified by supply and demand conditions. These failures to arrive at the right price, or to make a price change when needed, occurred both in the period of bargained prices and in the operations of state and federal price control since 1933. The committee concluded that techniques need to be devised for more prompt and accurate recognition to be given to changes in economic forces. These forces were interpreted to include both general economic conditions and specific local developments.

With respect to the second major objective, the adjustment of prices among competing markets, the committee gave detailed attention to the problem of adjusting prices between the Philadelphia and New York markets. The same class I prices in Philadelphia and New York would not result in the same blend prices to neighboring farmers in competitive areas because of different systems of classification of milk, different seasonal variations of production, and different seasonal variations in fluid milk sales in the two markets.

A comparison of Philadelphia and New York producer prices in a competitive zone from 1921 to 1948 brought out the interesting fact that, up to 1939,
Philadelphia producers tended to receive a higher blend price than New York producers, even though New York Class I prices tended to be somewhat higher. After 1939, with New York Class I prices still running higher most of the time, producers for the two markets fared about equally well on an annual blend price basis.

There still remained, however, important seasonal differences. Philadelphia producers, seeing a higher New York blend price in November and December, 1947, were inclined to forget the higher blend prices they had received earlier in the year, during the months of flush production.

The committee concluded that, if specific local conditions were to be considered in any attempt at a pricing formula, it seemed impossible to anticipate these differences in originally introducing a formula, but that observation over a period of time should enable adjustments to be made in the interest of harmony.

In any pricing system it seems important to be aware when the time for a price change has come, to make the change promptly, and to make the change in the direction and amount indicated by general economic conditions and specific local developments.

Experience with Philadelphia Class I price hearings disclosed important obstacles to efficiency in the operation of the "hearing" method of price determination. Under federal and Pennsylvania state proceedings, interested parties are permitted to make either general or specific proposals relative to price changes upon which hearings are to be held.

In Philadelphia it was customary for proposals to be stated in general terms. Consequently, after receiving all of the testimony, the milk control authorities were faced with the necessity of proposing a specific price. Such proposals, according to federal procedure may be subjected to written "exceptions" submitted to the Dairy Branch. """"""""

or, according to Pennsylvania Milk Control procedure, such proposals are considered at a so-called "pre-view" hearing, at which proponents and opponents are given an opportunity to discuss the proposal with the Milk Commission and a representative of the Commonwealth's Attorney General.

Enough has been said about these procedures to indicate that they are time consuming, and to suggest that, by the time a price change actually becomes effective, conditions may have changed to such an extent as to make the new price out of date. This has been a frequent complaint in the Philadelphia market.

In order to make more specific the reasons for such delays, and to place the responsibility more justly, it is only fair to add that the form, content and volume of the data presented in the hearings often have been such as to make quite difficult a reasonable conclusion as to the correct Class I price. Concerning these voluminous hearing records the Report of the Philadelphia Class I Price committee states with a bit of sarcasm: "In this mass of material there usually have been some indications as to what the price ought to be."
The committee recognized the necessity of public hearings, semi-annually but came to the conclusion that they could be made more valuable by some systematic method of pointing up the conclusions to be drawn from the economic data presented. It was suggested that formula pricing could be made a strong supplement to the hearing procedure, providing the state and federal agencies cooperate in developing and administering the program. Moreover, the committee considered it possible to gear a formula up to the pricing mechanism in such a way that, if supply and demand conditions change sufficiently in the intervals between the proposed regular semi-annual hearings, the Class I price would change automatically.

Suggesting a Class I formula was considered seriously only after discussing the matter with industry leaders. The variety of opinions expressed was so great that it was impossible to reach a definite conclusion concerning the probability of ultimate market acceptance. Interest enough was expressed, however, to indicate that if the right formula could be developed it might be accepted.

The task of inclusion and exclusion of factors that seemed worthy of consideration was then undertaken. The five factors selected represented, in the opinion of the committee, a sufficient number to reflect the main forces at work upon the Class I price, and at the same time excluded those which seemed deficient in one respect or another. The factors proposed were: (1) wholesale prices of all commodities in the United States; (2) prices paid by Pennsylvania farmers for mixed dairy feed; (3) prices received by Pennsylvania farmers for products other than milk and milk products; (4) prices paid by midwest condenseries for 3.5 per cent milk; and (5) average daily class I milk sales, both in and out of the Philadelphia marketing area.

Disappointment was expressed by certain producers that the Department of Agriculture farm wage figures were not used. Careful scrutiny of those figures led the committee to suspect that future reports of wages paid on farms in the milk-shed might be influenced by the knowledge that the data were being in fixing prices. An effort was made to include only factors derived from sources which could not be influenced by the results, and which would have no motive for tampering with the data.

Likewise the question has been raised as to why the percentage of total supply used as Class I was not included. The reason for this omission is clear when it is realized that the Class I percentage is not a significant figure under the Philadelphia federal order, because of the large quantities of supplemental milk from near-by manufacturing plants used in the market.

A bracketing system was considered to be essential because of the Pennsylvania Milk Commission's state-wide system of control, including fixed minimum resale prices in all markets. The twenty-cent per hundredweight price interval is considered in the Philadelphia market to be a fair concomitant of a one-half cent per quart change in the resale price.

In conclusion, the committee asserted the strong believe that, although the formula proposed reflects most of the important forces affecting the fluid milk price, there would be no exact relationship between changes in the formula and desirable variations in the Class I price, and that no formula can be used very long without reconsideration and revision.

* * *
Manufactured Milk Pricing

Paul L. Kelley, Manhattan, Kansas: Manufactured milk pricing is of particular importance to all of us at this time because so many federal orders in this area are based on manufactured milk prices, or some form of condensery, butter, cheese or powder combinations. I think as many as 20 or 22 federal orders use some form of condensery pricing in the basic formula price.

It has been mentioned that officials and agencies in the federal order markets have been making a careful scrutiny of their pricing provisions at this time. This job has been done by price committees composed of people who are free to conduct an objective study in the market. We find that some of these committees have recommended what some of us may think are new depatures in federal order pricing.

During 1948 such committee was named to study the problem of pricing on the St. Louis and Kansas City federal milk markets. This committee was composed of representatives from the University of Illinois, the University of Missouri, the University of St. Louis, Washington university, Kansas State college, the Federal Reserve banks of Kansas City and St. Louis. The studies were financed primarily from the market administrator's offices in Kansas City and St. Louis.

This committee is free to conduct the research in any way they see fit. I think most of the committee agreed that progress is being made.

The committee had set up certain areas of responsibility for research. I am not reporting for the committee. In fact there are several members here this afternoon. Any statements I may make are my own. I certainly do not want to represent that these are conclusions of the committee because they have not published a report to date and are merely proceeding on the study at this time.

The primary objective of the Kansas City and St. Louis price committee study was to determine a more satisfactory formula for pricing class 1 milk in the two markets. One of the assignments given to the University of Illinois was to examine the condensery pricing used in part to determine the basic prices in these two markets.

This is an important area of study since in this whole midwest area there has been considerable shifting to the sale of market milk and there has been considerable shift in the western part of this area from the sale of cream to fluid milk.

It was fairly obvious that a good base to start from is necessary if the fluid milk prices were too far out of line with condensery prices you would get rather sudden shifts through the area. Price relationship between manufactured milk and bottled milk must be closer than in eastern markets.

One of the problems is whether the 18 condensery price is in line with the national condensery price and how far out of line some local condensery prices get with either the 18 condensery price or other local condensery prices. Briefly the results to date indicated that the 18 condensery price
moves in relationship to national condensery prices, and the 18 condensery prices are in good relationship with the butter, cheese and powder prices over a long period of years. There are exceptions to that in short periods.

Another area of study assigned to other agencies was the problem of determining the relationship of competitive prices of alternative products such as beef or wheat to milk prices. We at Kansas State College have taken on that particular phase of the project. The preliminary findings which we give with reservations are that it would be very difficult to include those commodity prices in a formula with any degree of precision.

* * *

William Perdue, Fond du Lac, Wis.: Fluid milk prices, the evaporated milk price and manufacturers' milk prices ought to be closely tied together. We proposed a number of years to Pure Milk Products and to Ohio producer groups to have an order for evaporated milk, and to have an order for manufactured dairy products as time goes on.

As I listened to Matt Wallrich today I was inclined to think that we need an order for milk. One national order to cover the United States, one co-op manager. The market administrator should be Matt Wallrich and the co-op manager should be Bill Perdue.

The time is certainly here for the Middle West and the East and the Far West to sit down at conferences like this to iron out some of the handicaps we face. I want to emphasize that the dairy farmer had better wake up to the use of federal orders not only in city markets but in manufactured markets.

It may be we could price manufactured dairy products in relation to parity and relate our city markets by formula to manufacturing dairy products.

I am one of these old-fashioned fellows who thinks you can take department store sales, the price of labor, prices of every other commodity to throw into formulas, but you can't forever let the fluid milk market and the manufactured market stay so far apart. I don't think the fluid markets will stand up. I think they will collapse.

Marketing agreements came into being in the early 30's. We had that same experience in the Middle West. We didn't have any of the eastern market to speak of then. The easterners haven't done a thing that we wouldn't do in the Middle West. I wish we could do it better than we are doing it.

If we could tie some of our manufactured prices up instead of tying them down -- get them jacked up a little bit in such a manner that we can steal some of their market again, we might be a little happier. But we have lost a market in an economic upheaval.

Too much milk being produced and now we are crying about not having a place to sell it in the east. We are really concerned about it in Chicago. We are concerned about the manufactured milk. When you read the reports of
the BAE for December or January and see the stockpiles continue to increase except in evaporated milk, you have a concern over how these stockpiles will be handled. We are not going to move stockpiles unless we price them properly and sell them. I am not too sure that we are going through many more periods with price supports and this surplus. If we could get people in the Middle West and the East to work out a program to use marketing agreements, I said a national order awhile ago, that may be the correct thing to do.

A committee in Wisconsin has started on a proposal to price dairy products in keeping with demand. We are thinking of a marketing agreement or order, a set aside or check off up to 10 cents a hundredweight to be deducted from all of the milk. The set aside will be used to take care of our own stockpiles if we can tie that to production control.

Either we are going to have control tied to the demand or we are going to keep on wondering how to price manufactured milk. Some of you won't like that kind of suggestion, but dairy farmers are going to have to start merchandizing. They are going to have to start selling milk instead of pricing it.

One of the solutions we are going to find in pricing manufactured dairy products is by use of federal orders. We need to use them with more intelligence, and to use them for what they were designed for -- for the distribution of the dairymen's dollar that the dealer gets hold of. You heard from this platform what is going on in the East about pricing people out of the market. We get that right in Wisconsin, the Pure Milk association, the Pure Milk Products and some of the northern plants. There's a man up there who gets on both side of the fence. He can march down to Chicago and make a good case for cutting the price of Class 4 or any other class in that order. Some of the rest of us do that, some of us oppose it. Those are the petty differences we are going to have to get away from. We give the department hell occasionally and I think once in awhile they are entitled to it; but we fail to recognize that the Marketing Agreement Act of 1937 is a farmers' program. It is not the misuse that the government has placed on it, it is the misuse the people have put on federal orders that is wrong.

* * *

G. W. Wagner, Toledo, Ohio: The organization for which I work is divided in membership between fluid milk inspected shippers, as we call them, and un-inspected manufactured milk shippers.

The problems of these two groups of dairy farmers are similar in nature though, in great contrast in one respect because of the lagging development of cooperative organization in the manufactured milk field. Ours is strictly a bargaining-marketing organization at present. The obligation resting on dairy farmers regardless of where they may be and the market to which they ship milk is to look and see what is in plain sight.

The condensery shipper if he would look at the price situation would note that he has to meet some quality requirements which occasion him at times some trouble and expense, and that his peak price for 100 lbs. 3.5 milk
in the four local condenseries was reached in the month of August, 1948. At which time he got $4.27. This high price was on the free and open market and brought on by short supply. Short supply, I believe, exists in two cases (1) where there actually is a shortage of milk, and (2) when we think there is a shortage of milk.

Since that relatively favorable price of August, 1948, the shipper has seen a drastic decline in the net returns on manufactured milk. The price per 100 lbs. of 3.5 milk at the condensery dropped to a postwar low of $2.51 inside of about eight months.

At the same time, and I quote the figures now, the highest case price charge for 48-14½ oz. cans ranged around $6.50 to $6.70. The case price has declined to the present one of about $5.00 to $5.25.

We note that there is an increased spread and that all of the drop that the farmer has taken has not been passed on to the consumer, or to those buying the case goods. Possibly persuasive arguments can be raised to justify prices that have been set by buyers of milk. But the present picture does not make necessary these persuasive arguments. The milk buyer does not have to persuade anyone under the present marketing arrangements. There is no hearing requiring one to give reasons for actions or to put out operating expenses or any other data as a basis for the prices paid.

Facts can be compiled in the federal order markets to show the benefits which flow to organized producers under an arrangement which brings into focus actual marketing conditions in an area. Again and again full information in a public record has called for price adjustment in favor of the milk producers.

I feel that one of the basic purposes of a cooperative is to see that a fair share of the national income is returned not only to the members but to all milk producers in that area.

The continued highly held case price on evaporated milk has drawn both admiration and criticism from the rest of the industry, depending upon their economic interests. The price paid in Northwestern Ohio condenseries declined from $4.27 to $2.51 and has now gone back to $2.76. The average price for 1948 in the four local plants being $2.68 is not encouraging to the producers other than telling them to organize and come and get it.

The burden of proof is on milk buyers to show that the present price spreads or price payments are justifiable and that the producer is receiving all that the industry can afford to pay. But the initiative and the burden of organizing the unorganized and proceeding to correct the present price conditions are on the existing milk producer organizations and their leaders.

It is easy to make out a case to justify the program of fluid milk cooperatives in the last 20 years. The returns that they have given to their member producers are probably the greatest return on investment of any farm operation the producer ever had. Why, then, is it not reasonable to expect the same result to be achieved in the manufacturing milk field?

Admittedly the problem is tougher; the area to be regulated is greater; the opposition is more concentrated; and the producer personnel less inter-
ested. But to offset this, we have sound marketing cooperatives who are experienced, and could, if they would, move into this deal and perform a great public service. The proper distribution of our national income is essential to the progress of our entire economy. Our existing cooperatives can take the lead and try to accomplish that objective. The 1937 marketing agreement act, it is generally agreed, is sufficiently broad for the regulation of prices in the evaporated milk industry. After a series of hearings and with a good record in hand the department of agriculture with its experience with federal order markets could embark on a new and promising course of price regulations. This action would hold much promise for the smaller dairy farmer in this country.

As a preliminary step in our own organization we institute what we believe to be a sound check testing and weighing program in the condensery plants. We worked this out locally through negotiations. We provide this service at a cost of two cents a hundredweight on member milk.

In conclusion then, it is the duty of the cooperative to so divide the money that is obtained from the consumer, fairly back to the shippers. We are not going to get any of these programs whether it be advertising, or federal order, or correction of bad regional pricing unless we organize the unorganized. Only about 15 percent of the shippers going into the evaporated plants right now are members of cooperatives.

We might keep in mind the report which was made on the evaporated milk industry, one of the authors being the present dean of the agriculture college of Wisconsin, who said: "If the resale price exceeds cost (he is referring now to the case price of evaporated goods) it is unlikely that most manufacturers would pass this excess on to the producers unless competition for raw material or government regulations forced them to do so." The job is waiting for the cooperative organizations to go out and take a hold of it.

* * *

Pricing Milk Under Federal Orders

Don Anderson, Washington, D.C.: There are two points upon which I am completely in agreement with Mr. Wallrich. The first is that we live in a pressure economy, and the second is that the dairy branch is not infallible. With respect to the third, I doubt if midwest dairy leaders are as dull as he seems to have implied.

But after two or three meetings, such as we had in St. Paul, my faith in midwest dairy leaders may be somewhat shaken. The first meeting of that kind was held in the spring of 1949; and you will remember in 1948 under the pressure of the free market, prices went up.

During that spring and early summer I met many times with industry groups. They had one theme song "Never again in history can U.S. supply enough milk to meet its needs." That was in 1948. They had a very simple formula and we have heard something about formulas here today. Cow numbers are going down. The number of babies is increasing. Under the pressure of fewer cows and more babies what can happen but a never-ending shortage of milk in the U.S?

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During that spring and early summer I met many times with industry groups. They had one theme song "Never again in history can U.S. supply enough milk to meet its needs." That was in 1948. They had a very simple formula and we have heard something about formulas here today. Cow numbers are going down. The number of babies is increasing. Under the pressure of fewer cows and more babies what can happen but a never-ending shortage of milk in the U.S?
Something happened in 1949 and early 1950; and some people seem to be amazed that under the strains that Mr. Perdue mentioned we didn't between morning and evening of some weekday adjust all prices quickly, immediately and to everybody's satisfaction to this new situation. Somehow or other, I don't have that much faith in the dairy branch or in voluntary agreements. I wish all of the marketing agreements were voluntary and we could get out of this business altogether. But under this system of pressure groups, I doubt if that is possible.

I also question whether the trouble in the midwest, and I admit there is trouble there (there is trouble in the dairy industry everywhere) is due to the fact that the dairy leaders of the midwest relied too much on government. It is perhaps just the other, that they tried too much to solve their problems in a pressure economy where everybody is relying more and more on government.

Prices had broken in the fall of 1948 and the price on fat and dry milk solids were really on the skids. We were operating then under the Steagel Amendment, which said the Secretary is limited to support the price of milk and butterfat at 90% of parity. Price of all milk was well above 90% of parity.

The Dairy Branch had recognized this problem and was already working to establish a parity equivalent for manufactured dairy products so that we could do something about this decline.

During the January 12 meeting someone said, "What shall we do?" I and some others suggested that it was for the dairy industry of the midwest to make up their mind what they wanted. They did appoint some committees, one of them a long-time committee. I read that first report. The main point of it seemed to be to abolish the committee, and next to take a crack at the Brannan plan because it depended too much on operations of the free market. It seems to me too much stress was placed upon the effect of Class 1 prices in the east and upon the unfortunate position which the midwest dairy farmer found himself.

On the 17th of February the Department of Agriculture issued a release a part of which I would like to read:

"The nation's farm operators in 1949 realized 17 percent less net farm income from farms than in 1948. According to preliminary estimates of the Bureau of Agricultural Economics their realized net income from 1949 was 13.8 billion dollars as compared with a 1948 total of 16.7 billion dollars."

This decline together with a smaller drop in 1948 brought the total farm income of farm operators down 22 percent from the 1947 record high. Do any of you know of any large economic group in the U.S. that has taken 22 percent decline in their realized net income since 1948? Stockholders of General Motors didn't. I am not sure that I know of any large group of wage earners that did. I cannot think quickly of any economic group in the U.S. that since 1948 has taken a decline in their net realized incomes such as the farmers of the U.S. have taken.

I don't know whether farmers are getting too much money today or not, but I do know that wherever I go and wherever I read I find charges that farm prices are too high.
I was in Cleveland the other day. A paper in Cleveland referred to the mountain of surpluses that the U.S. government had the mountain of butter. "See what is happening to consumers under this program. Before the war the price of butter was 39 cents retail and today it is 71 cents." Their figures were right.

An automobile salesman in the room pointed this out to me; and I said: "Sir, I would like to place with you an order for a new Cadillac at prewar prices." I am still waiting for the Cadillac. I asked that group if they knew of any product the price of which was not higher now than before the war. We got the answer to the $64 question. One of the business men raised his hand and said, "I know one." "What is it, sir?" "Chewing gum."

I point this out, East or the Midwest is doing so little to inform our people as to the true facts about what dairy farmers are getting for their work.

Bill Perdue talked about this surplus. Mr. Wallrich's resolution in St. Paul was based upon two assumptions -- disruption of the regional pattern of dairy production in the U.S. and then it would be necessary to reduce production in order to meet the domestic demand. I have a great faith in dairy products. If the dairy people only had the faith I seem to have.

I find people in the department once in awhile referring to what the government has bought in the way of dairy products in recent years. CCC bought 15 million pounds of butter last year. They bought something like 442 million pounds of non-fat dry milk solids. We have been selling it. We haven't always gotten a good price for it, but we sold it. We bought 25 million pounds of cheese from price support and some for the school lunch programs, a total of something like 39 or 40 million pounds. Add this all together. Measure the amount of milk it took to produce the products and percentage of the total production on what we got, is something less than two percent. In 1948 we were never going to be able to produce enough milk to supply this country and in 1949 the government had to buy two percent or the whole dairy industry is "going to the dogs." It doesn't make sense to me. Especially it doesn't make sense after I hear men like Mr. Wagner talk. If dairy farmers would organize, if you would put on a merchandising program, if you had done it in 1949, no one can convince me that all of that two percent wouldn't have been sold in the U.S. and would have been sold at about support or purchase price!

What about disruption of dairy markets? What has been the cause and what can we do about it? What part have federal orders played in the disruption, if there has been any disruption? If federal orders are wrong in any particular, they should be changed.

I am not too disturbed because Class I prices in the midwest didn't come crashing down, within a few months after dealers were paying premiums over the minimums required by the order. I am not disturbed after Mr. Wagner quotes figures showing the lack of haste with which retail prices follow farm prices down in a period of rapidly declining prices.

I recall a group from one of our big distributors of dairy products called on some representatives in the Production and Marketing Administration. I have nothing against distributors of dairy products because so long as the farmers
take the lackadaisical attitude toward the sale of their own products, that
Mr. Wagner pointed out, you will have to depend on somebody else for distribu-
ting; and you will have to give those people margins on which to distribute. But
it was a little baffling to have this group tell how sympathetic they were with
the dairy farmer, then say, "but we can't help the farmer unless farm prices
go down so we can sell the product." They represented every branch of the in-
dustry -- cream, ice cream, butter, cheese, all of them.

We raised the question with them, "What price is the consumer really
interested in, farm price or retail price?"

One fellow admitted that it was the retail price. Upon questioning, it
was admitted not a single retail price except the price of butter had followed
the decline in farm prices that have already taken place. There is some justi-
fication for lack of haste in adjusting farm prices downward in a period when
we made a jump in attitudes of 1948 to the attitudes of 1949.

I think we are going to have more milk in 1950 than we had in 1949, and
I hope that you and all your people get together and do a better selling job
than you have done. Some people have said that Commodity Credit is going to
go broke and can't carry out the price support program from now to March 31,
1951. We can and I think we will. With that assurance that you can't lose
very much with the government ready to take your product you should be willing,
you should be able to use this period from now through March 31, 1951 to build
a sales program and get more than you can get out of Commodity Credit Corpora-
tion.

In a large percentage, by far the largest percentage of the federal order
markets the price of Class I milk is tied directly to manufactured dairy
products. In a few places they have departed, in Boston, New York, and New
Orleans. In Philadelphia someone said the price is fixed from time to time. Some-
one, made reference to erratic, violent ups and downs in butter prices.
Perhaps the people in the Midwest, the people who sell butter, have some re-
sponsibility for examining price determining methods we now have in the butter
industry.

You can't be too critical with the fluid milk market in the East when
they hesitate to tie their products directly month by month to a price making
mechanism in which no one seems to accept the responsibility for the price mak-
ing.

If we will do in the manufactured dairy area what the fluid milk people
have done in many areas, not only in the East, but in the Midwest, of organiz-
ing ourselves to take some responsibility of marketing dairy products, of
taking some responsibility for price determination, of taking some respon-
sibility for seeing that dairy products are displayed on grocery shelves, then
there will be less hesitancy than there has been in Boston and New York, to
tie directly to prices of manufactured dairy products.

When I see Commodity Credit with a stock of 85 million pounds of butter,
and when I go into a super market in Washington and see a modern refrigerator
of delicious dairy products and see in that refrigerator eight varieties of a
commodity whose closest association with dairying occurred when a cow happened
to get lose in a cotton patch or a soybean patch, I question not whether that dairy store is doing a good job; but whether the dairy farmers and dairy leaders who produce the butterfat were doing a good job. Rather than be too critical of our friends in the East for not being willing to tie too directly to the prices of manufactured dairy products, perhaps those of us who are primarily interested in pricing and marketing of manufactured dairy products should look first into our own house and see whether it is in order.

There are state control orders some of which still set retail prices. Most of us are happy to see that those are disappearing. With reference to the claim of the Midwest that they are losing their dairy cows to other areas, let's find out where these cows are going. Maybe they are not all going into federal order markets. Let's remember too that we have had great increases in freight rates. Let's remember that the South is going to come up with a different kind of economy, in which there is an increased production of dairy products.

I call your attention to these things because of some discussion we had with a very fine group that met in Columbus the past two days. Noble Clark is their administrative advisor and some of the people are here. Those people are concerned with research and are trying to find for you some of the facts that will help us to decide what should or can be done to improve the economic condition of dairy farmers. One of the things that bothered me about their problem, was that certain facts are much more readily available than others. In federal marketing orders also in price support activities, the government operates in the open. The facts in respect to these activities are widely and generally known. That is probably why they get plastered all over the newspapers so easily. Perhaps the reason that federal orders have taken the brunt of criticism is because the facts in respect to federal orders are so easily available.

We do have a problem in the dairy industry. We have it in the Midwest and the East. I don't think that problem can be solved by government. It may need the help of the government; but it can be solved only when the dairy farmers are willing and able to get behind programs to help themselves and then use government, however, it is necessary.

Let's look at an example, the difference in the decision between the New York order and the Chicago order with reference to out-of-market milk. Under existing rules and regulations those decisions have to be based upon facts introduced into the record. Perhaps the record wasn't right. I don't know. I do say in federal orders, in price support, in this whole deal, "where we live in a pressure economy" unless the dairy farmers in this country are willing to get together behind either a voluntary program or a program in which they use a minimum of government help, they are not going to get along very well.
Comments and Questions

Questions: On one hand we have the statement that the thing to do is to sell the products and on the other hand we have government support programs that enter into the price at which you can offer them. I'd like to have someone in the panel to discuss the implications of getting people in the mood to buy and then when they go to buy and look at competitive products, they find the price too high. Is that one of the problems which the government and industry face?

Comment: As we put on merchandising programs, we need a pricing program in line with what the consumer will pay and keep our product moving. If we do that, we will find the government out of this program before 1951 and we won't be looking to Commodity Credit Corporation to borrow any more money to buy dairy products.

Comment: I recognize that price is one of the factors determining whether or not a product will be sold. When I listen to people who claim to be merchandising experts I believe more and more that there are other factors which influence whether or not the product will be sold. I was called up before a group of senators and congressmen and found out the reason for it was that Pure Food and Drug had seized some butter. As near as I could tell the whole dairy industry was on the side of the fellow who had had his butter seized and nobody supported Pure Food and Drug. First we must get quality.

William Black, Wis.: Could we possibly expect the farmers to assume the responsibility of marketing their own products if the support prices were reduced and the market cleared? That's one alternative. The other alternative is to continue the support price and keep on building surpluses. Under that situation the farmer will not assume the responsibility of marketing because he says, "Come what may, the government will be there to bail me out."

Mr. Anderson: Despite my firmest convictions if this thing goes on, you gentlemen are going to have a lecture on the Brannan Plan. Make up your mind what you want here. It has probably been demonstrated that a price support program based on purchases causes a certain percentage of our population to become lazy; and they are not all farmers. The other day near here someone sold CCC a carload of butter at 58 cents when the market that day was in the low 60's.

There is no seasonal adjustment in the purchase price this year, 60¢ for 92 score butter from the first of January to the 31st of March, 1951. One of the principal reasons for that is to make it harder for business men to be lazy.

We advanced the price three cents last year. A number of business men purchased butter from creameries for the sole reason of reselling it to the government at a 3-cent advance.

A lot of people ask, "Don't you know that the price of butter is supposed to be higher in the fall than in the spring?" Everybody in the Dairy Branch knows it. We also are fairly well convinced that there is only one way or two ways that people can make money in butter speculation now. One is convincing creameries that CCC doesn't mean what it says, that they are a tough bunch to deal with, they are low pay and all that sort of stuff, and buying from the
creamery at less than the support price. If the creamery wants to be that
dull, the creamery has a right to do it. The only other way they can do it
is to pay the creamery approximately the government purchase price. The
creamery can afford to sell at somewhat less than the purchase price, because
it wouldn't have to stand the cost of government grading and merchandizing.
The same opportunity will probably exist in 1950 for merchandising profits
that have always existed.

Comment: It is difficult in any business to build a merchandising organi-
zation or convince people that they should build a merchandising or advertis-
ing organization without knowing what the general rules are. We haven't known
what the ground rules would be. Mr. Anderson says it was less than 2 percent
excess production last year which resulted in the accumulated surplus that the
government is buying. That was surplus manufactured dairy products that
farmers are supposed to merchandise. No organization can merchandise its
products soundly without knowing what the production potential is going to be.
You will run into price competition and chiseling where groups are urged or
forced to go into the manufacturing of a commodity which they are not accus-
tomed to manufacturing.

Since last September, we have been running a daily average excess in 19
federal order markets during the short season of the year equivalent to two
billion pounds of milk on an annual basis. That is the amount the government
had to buy in the form of manufactured dairy products in 1949.

So long as we are under a support program, and so long as we have prices
regulated to encourage production with the determination that the supply is
inadequate in regulated markets it is impossible for one segment of the dairy
industry, to develop and maintain and promote a soundly conceived merchandis-
ing program.

The dairy industry, especially the manufactured dairy industry, is
entitled to have from the secretary a statement of the ground rules, so long
as the support program is in effect.

Question: The last part of the afternoon program developed into a dis-
cussion of selling. Speakers said selling is one of the dairy industry's
problems. Who's job is it to develop a selling program within the dairy
industry?

Comment: That is the farmer's program. It's his responsibility.

The dairy farmer must be convinced of the need so strongly that he will
want to make a contribution to create a demand for dairy products.

Comment: The American Dairy Association has taken on quite a job.
ADA and Dairy Councils have run on rather thin rations. It is the farmers'
problem to help sell his merchandise.

Comment: We put ADA on every farmers' meeting. ADA shows them how it
pays to merchandise. If we spend a year at that, next year we will have a
cent a hundredweight all the year round for ADA advertising.
Comment: In a few plants the managers put good butter on the milk routes out to their own farmers, good natural cheese, in some cases even ice cream. I have heard some plants put bottled milk in paper containers on the routes and got the farmers to drink the milk that they were trying to sell.

Comment: We producers must be willing to put up money to advertise milk. When we make the deduction for the American Dairy Association in Michigan Milk Producers' Association occasionally I get a protest from some producers. For the most part they have subscribed to it very strongly. The large percentage of our people would have gone even farther than the co-op leaders are willing to commit themselves. But one farmer wrote it was an insult to the intelligence of the consumers to think that you had to advertise dairy products. Everybody knows the value of dairy products he said. The people who have been handling our product should carry a greater responsibility than they have in the past.

I think that it was in this state, that I was invited to a regional conference on a long-time planning program. Representatives of the the distributing agencies had a long-time program to submit. One of point was, of course, the quality program, another was advertising. One distributor said there was no use launching a program of this sort unless farmers were willing to subscribe and work along that same line.

I said, "I subscribe wholeheartedly to the program. Our association spends money for Dairy Council; our association subscribed to the American Dairy Association. We carry on a radio program of our own advocating the sale of milk and dairy products. We have advocated a quality program. Our testers check the milk of our farmers microscopically to find out how good a job they are doing. We send men to the farms to help them do a good job. But whenever one distributor or cooperative disciplines the farmer who hasn't produced quality, somebody else is ready to take that producer's milk. In our market we have distributors who are unwilling to subscribe to Dairy Council work. We have distributors who will not deduct for the American Dairy Association. We have a job not only of convincing our own farmers of the problem, but also of convincing the people who have up to this time distributed our products."

Question: As to a point in the resolution that Mr. Wallrich read, is there to be a provision in findings of price in eastern markets permitting adjustments for local conditions which would include cost of transportation, and other costs of inter-market movements of milk?

Mr. Wallrich: The proposal reads:

1. "The prices established for the classifications of milk of the fluid or protected categories shall be directly related to the prices established for dairy products under these support programs, with proper recognition given to differences in quality requirements and the incentive for level production.

2. "The prices established for the classifications of milk used to produce manufactured dairy products shall be at a level equal to parity equivalent price to producers of milk for manufacture of dairy products in the area regulated. Allowances for inter-plant handling or to adjust for special market conditions shall be separately and specifically provided."
What the committee was driving at was this. The criticism of relating Class I prices to dairy products prices was the fact that there was rapid and unusual fluctuation. From now until April 1, 1951, the support price presumably will be constant. Therefore, we believe that during this support price program, Class 1 can be related to that type of a pricing.

Secondly, we recognize that since the Secretary in his support program has indicated that to all producers milk is worth the producer parity equivalent price, no handler even in New York should buy milk for a manufactured product for less than that amount.

If another adjustment is to be made for 28 cents, as was asked a couple of weeks ago for extra plant handling, those adjustments should be set out specifically so that only those who actually require these allowances would get them. The large dairy companies would not then have a competitive advantage over the manufacturing plants that might be under another federal order or might be under no order whatsoever.

If New York handlers have a price for manufactured products from 25 to 40 cents a hundred in New York, under the prices for manufactured products in Wisconsin, then there is for some operators a competitive advantage, which we don't think is justifiable under a federal order program.

* * *

National Policy Affecting Dairying and Price Supports on Dairy Products

Judson P. Mason, Chicago, Ill.: Anytime you get into a discussion of policies and price supports, you are mixed up with government. It reminds me of a meeting that I attended in Chicago some year and a half ago. It was just after the last presidential election, it was a business group. Those attending were much disturbed over the prospects for the future and specifically for the next four or five years. It was their opinion that the government spending program and the resulting projects and aid programs being conducted by the national government were excessive and were being operated inefficiently. The same programs, they felt, were in many cases working to the disadvantage of the people they were set up to help.

The speaker didn't share that view at all. He pointed out the great technological progress that we had made in the past ten to fifteen years, the high standard of living that we had attained. He said we have a lot to be thankful for. One of the business men sat there and scratched his head and said, "Let's be specific. Let's just find out one thing." The speaker got up and replied: "You can be thankful you are not getting all the government you are paying for."

When it comes to national policies affecting dairy farming and price supports for dairy products it seems to me that regardless of the approach that you take you get into a problem that is complex, difficult. It is questionable if anybody really knows what is best for the country as a whole, or for agriculture, or for the dairy farmers.
National policies affecting dairy farmers and all of agriculture must be closely tied to our policies for the economy as a whole. We have to think in terms of being an integral part of the whole economy and not as farmers or dairymen set out separate and distinct from other people. We should have objectives; and I think the objectives to which our agricultural policies must be directed include five things.

1. We must have an economic environment which will develop and maintain a high level of production, a high level of employment, and a high purchasing power.

2. We have to have unrestricted trade that will permit a high degree of specialization and the most efficient use of our resources including labor.

3. We have to have efficient production without the exploitation of our natural resources or of our people.

4. We must have income from efficient farming which is sufficient to allow farmers and families a standard of living consistent with the general economy.

5. The risk farmers take as a result of wide fluctuation in prices of agricultural products which do not coincide with the fluctuation in the prices of commodities the farmers purchase should be reduced.

Policies of government directed at other segments of our economy for improvement in the standard of living and security of non-farm people should complement those designed to improve agriculture. If we help one group that program should have the effect of helping all groups. We should have programs that complement each other and which don’t work against each other.

We have government programs aimed at increasing our efficiency of production, raising our yields, raising our production per cow; and at the same time we have other programs tending to reduce production.

The whole policy of our government has been directed toward raising the standard of living and increasing the security for our people. I think that sums up the whole approach of our government for the past 15 or 20 years and even before that. The federal and state governments have increased their participation in the economic lives of the population at an increasing rate, particularly since World War 1, and more pronounced, of course, since 1933. Should the government participate to a greater degree? Has it gone far enough? Should it retreat? Can a government guarantee security to its citizens? Or does security depend on the maintenance of a free enterprise system of incentive that will give us a high level of production, employment and purchasing power?

Are we going toward a managed economy? Or, are we going to use government orders to make the most of our free unregulated, economic system? Many of the agricultural programs initiated by the government have been of real
value to farmers; and, I think, to the public as a whole. I know of none which has contributed more to the stability of milk marketing conditions than federal milk marketing programs as authorized by the Agricultural Marketing Agreement Act. Rural electrification, soil conservation, agricultural credit programs, and some other of the government service programs have really been of value to farmers and should by all means be continued.

The biggest problem facing farmers continues to be prices of agricultural products and their relationship to their prices of things that farmers buy. Many programs have been tried and many have failed. The McNary-Haugan bill, which was the first bill passed and vetoed, would have protected domestic prices from being depressed by low prices on the world market. High tariffs to protect the American market and the use of dumping in foreign markets were proposed to accomplish this purpose. The inherent weakness of this program was that dumping isn't accepted in other countries any more than it would be accepted here with respect to meat from Argentina or butter from Australia. The tariff as a means of pulling ourselves up by the boot straps does always result in less exchange rather than more.

The Federal Farm Board was established as a result of the Agricultural Marketing Act of 1929. It was essentially a purchase program for products in surplus. The result was further surplus production in response to artificial price.

The use of tariffs, makes it more difficult for American agricultural products to reach foreign markets by reducing exchange funds. That is a problem that we are facing today. It is one that we are going to face from here on out as long as our price level is above the world level.

The Agricultural Adjustment legislation beginning in 1933 recognized the problems of production in relation to price and sought to limit production as part of the price support program. But in limiting production we actually accomplished no reduction and sometimes increased production as a result of the quota system. Higher yields per acre resulted. Less efficient land use, more government regulations of farming and more cost of government results.

Many farmers are becoming convinced that price isn't the only goal that we have to look at. Price and volume - to hold up price and restrict volume, if you could do it, certainly wouldn't put any more money in farmers' pockets. It might cost them more money to get that production adjustment accomplished than to produce more efficiently at a lower price level and have unrestricted production.

The development of programs designed to achieve parity prices for agriculture have been exceedingly complex, and have been complicated by the war-time program to expand production. During the same period for the long pull we had too much domestic production for the local consumption here at home. During and following the war a series of bills were passed placing floors under prices of agricultural products through loans and through purchase programs. None of the programs adopted were intended to last for a very long period of time. It has had the result of keeping agriculture in a rather more or less-emergency state, for the past several years.
The disadvantages and difficulties in this system of price guarantee may be summarized briefly as follows:

Rigid parity prices at high levels, prevent desirable production adjustments, from occurring in response to change in demand and in cost of production.

Costs of producing milk, for instance, vary widely from one section of the country to another. And there are even wide variations from farm to farm in the same general area.

There appears to be no relation or little relation between the cost of producing milk and the price of milk. We talk about raising prices to get more production and it accomplishes that. We decrease prices to discourage milk production and we get more production anyhow. It seems to me that there is little relationship between price and cost of production as far as milk is concerned.

The same might be said for corn. An acreage reduction program under these conditions simply means that the program works to keep high cost areas or high cost farms in production. It sometimes results in bringing into production other high cost areas while cutting production in low cost areas. In the cornbelt at the present time we are fearful that by using quotas to reduce corn acreages in Illinois, Iowa, Ohio and Indiana, which are the most efficient places to raise corn, we are tending to spread the cornbelt over areas where the cost of producing corn is higher making for less efficient agriculture rather than for more efficient.

Acreage control works against consumers, and therefore producers as well, and may further deplete our soil resources by bringing into production this acreage which had best be used for something else.

That is a particular problem for milk producers again. If we reduce acreage of tilled crops it puts more land in grass and hay, puts more emphasis on livestock and dairy production, aggravates a surplus milk problem which we have before we begin.

If resources are to be used efficiently, production must be flexible between the various products of agriculture. Prices of all agricultural products must be established in some semblance to supply and demand conditions.

I am not saying that farm prices shouldn't be supported. I think that we have to have a price support program of some kind to keep agricultural prices from reaching artificially depressed levels such as we had in 1933.

I doubt if it would be good for the American farmer to have a price support program operating in good times and bad. I think there is a lot of dynamite, if the program is not limited. There is a tendency to more and more regimentation, more and more government regulations, more and more cost.

The public is going to get tired sooner or later of paying out large sums of money to support an agricultural program. Any guarantee of price
to farmers can be made effective only if the funds are made available. We shall have to have funds to support the program. We have to have funds to administer the program.

When the quantity of any product, including milk supplied at a guaranteed price is larger than the market will absorb at that price, the demand must be increased by subsidized consumption or through government sale of products at a loss.

Production control on milk would present perhaps the most difficult problem of all. I don't know how we could establish a quota system of milk production, if we had a mind to. Certainly the experience that we have had with the base-surplus plan which had two intents, one to level off seasonal production and the other to discourage milk production in total, didn't work that way. In the Chicago market certainly it resulted in a terrific increase in production rather than a decrease.

Any prices set higher than that dictated by supply and demand conditions tend to restrict consumption. Every time you restrict consumption you add to the problem of surplus. Today we are supporting butter prices, putting large amounts in storage. At the same time oleomargarine is replacing butter pound after pound. Perhaps we would be better off to have a little lower price and sell the butter. Vegetable fat is creeping into the ice cream business. We may have a bigger problem with ice cream than we ever had with butter. Are we holding our prices so high that we are forcing consumers to use substitutes for dairy products?

Fluid milk pricing presents the same problem. We have to watch our Class I prices so that we don't keep consumer prices at the point where evaporated milk displaces fluid sales. That can be done and is being done. The same results can be expected whether price supports are a result of loans, purchases and resales, by compensatory payment plans or by any other type of program which results in artificially high prices.

In thinking about price supports and production controls we are easily confused by the violent fluctuations that we have had in the general price level. While the general price level has declined rather substantially after each major war, all prices have not receded at the same rate. Such products as corn, wheat, milk, scrap steel and certain other raw products enter a market that reacts early to deflationary forces. Other items such as rents, wages, retail prices decline more slowly, or not at all. This creates the disparity within the price structure, making it difficult for one group of producers to buy the products of the others. It does point out the real problem of agriculture. Farmers have given a lot of thought to their problems and perhaps more than any other group in our economy. They have approached their problems realistically and certainly more so than labor. They know what their problem is, but not how to solve it. We have a lot of studying to do yet before we do make that decision.

At this point farmers have turned to government to solve their problems for them. Perhaps farmers should do more for themselves, with the assistance of government. In leaving the problem of agriculture up to the government there is a tendency for the government, regardless of which party might be in office, to be more interested in government than in
farming. The programs do get mixed up with vote-getting, patronage. John Brandt says that the more the government does for you, the more it does to you! I am not discounting the fact that the government has done a lot for the American farmer, that the government has initiated programs that have been of real help for agricultural problems, but I am saying that farmers should be careful and should try and work out their own problems a little more than they have in the past.

So far, I have suggested something of what might be wrong, I haven't told you any solution. I don't know that there is a solution to date. But if I were outlining a farm program I would work toward five different objectives.

I would recognize that we have to have prices that reflect supply and demand conditions. It is up to farmers to secure more efficient production so that we can sell possibly at lower prices. We will have to give more time and attention to breeding, feeding, and management, soil improvement. Certain government programs such as the REA, production credit and other agricultural credit programs, and soil conservation have been of great benefit to farmers in increasing their efficiency in production. We have to put more emphasis on getting products produced at a lower cost so that we can make money at the levels where the products will move into consumption.

Secondly, we have to continue to establish orderly marketing through the further development of cooperatives and through the further use of the federal order program. In using the federal order program, however, we will have to be careful that we don't artificially price milk to the point where we price ourselves out of consumption. We have to be careful that we don't use the federal order program to restrict markets for a certain group of producers. One of the big problems facing farmers today is the fact that we aren't all going in exactly the same direction. There is real room for improved relationships between farmers in bargaining associations and those in operating plants, so that their programs will be more complementary than they have been in the past.

Third, we have to continue to improve quality, and that is particularly adaptable to milk. The development of Grade A fluid milk is certainly one way to increase consumption. It is one thing that has certainly helped materially in the midwest. We don't want to give all of our attention to fluid milk. We want to raise the standards of sanitation for cream producers, manufactured milk producers, of the processor to get into the market the best possible dairy products so that consumers will be more inclined to buy them. Quality restrictions do have some effect of eliminating from the market the inefficient producers or the one who produces a low quality product, which drags down the demand.

Fourth, we have to put more attention to our own promotion efforts. We have to sell the American consumers on milk and dairy products. We have two programs, American Dairy Association, and the National Dairy Council. I think they are just beginning to show results, I don't think we have put nearly enough money into these programs. We should consider seriously putting a higher and higher percent of our sales dollar into promotion to get consumption.
Fifth, as a matter of government policy we have to back efforts to maintain full employment at good wages. People in the cities are only going to buy our products if they have the money.

We tend to look at handling margins that are wide and at cost of distribution and say it is too great. A lot of that cost is in wages. The more money in wages, the more products the people are going to buy. We have to put our interests more with labor rather than against it.

And, finally, I would have a government support program, which supported prices not at all times, but only when they reach low levels. I would follow a type of program proposed in the Aiken Bill of flexible price supports so that we do bring prices down as surpluses pile up and so that we do get adjustment in production from one product to another.

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John B. Roberts, Lexington, Ky.: My appraisal of our national policy today, and that means short-time policy, is big government. Fear and a realistic appraisal of the domestic and international situation forces us to accept big government and centralization of authority whether we like it or not.

A rough idea of what the demands of the people are on government today can be seen in the division of the 1950 budget of 43 billion dollars. National defense, veteran services and benefits absorb nearly half of that sum. We are told that that is not enough.

Roughly 12 billion of the 43 is divided equally or about equally between international affairs (in 1930 we were supporting one government and now we are supporting 20), and interest on the debt. A very large portion of the debt is a result of World War II.

About one-fourth of the 1950 budget is allocated to current expenses in domestic affairs. Under my definition this is national policy.

Here I want to distinguish between what I call policy and programs. By policy I mean the general approval of objectives or course of action and by program I mean a specific plan or means of attaining that objective, which is set forth in policy.

We could have a program which goes contrary to policy just as the main stream of the Mississippi river has a course but all sorts of eddys and cross currents confuse the whole thing. If you look at one point in the river you would say we are moving this way and if you look a little farther up, the movement is in another direction. That's part of the confusion here when we try to talk about policy and its effects on the dairy industry.
Keeping in mind that international problems override all other considerations, let's turn to some national problems. Here policy is to foster full employment, high rates of production, high wages, and an expanding domestic economy. The rates at which some of the people who are high in policy matters would like to see the economy expand, are suggested by the administrative advisors. They see the possibility of 64 million jobs in 1955. They say we might have an index of industrial production running from 210 to 220, about 20 points above the peacetime peak of 1948. They are talking in terms of 225 billion dollars of national income which is about 35 billion expansion from the 1949 figure. They say that we should have 50 percent increase in the number of houses being constructed over 1949.

What has that got to do with agriculture? The economic advisors suggest that under an economy of this kind you might increase demand for farm products roughly by 10 percent.

The economic advisors would contend that it is up to private industry to find employment for a growing labor force. To do this they would say plants must expand. We must have new products. We must improve old products. We must have high replacement. When machines wear out replace them with something new. And this must be done fast enough to meet the demand for higher wages, high enough to create the purchasing power necessary to buy the kind of output they are talking about.

Finally, I think they would say that, if private industry fails to do this, then government should (either government loan policy or in extreme by actual production by government) maintain this kind of industrial outlook.

This represents a philosophy of expansion, in the hope at least that this expansion level of production, high employment, high purchasing power in the masses is the answer.

Such a policy assumes that if you give people the purchasing power and incentive they will spend. I want to emphasize at this point, that prosperity in the nation even if it were achieved is not a guarantee of prosperity in agriculture. Much less is it a guarantee of prosperity to an individual farmer or an individual segment of agriculture.

We find that farmers are not able to match their output and gear their production system to demand. The competitive pricing of farm products is matched against administered prices and inflexible cost in production and distributive industries. Even in periods of national prosperity we can have growing disparity between the income of farmers and non-farm people. To correct these problems is one of the reasons for price support programs.

Our previous speaker emphasized that you cannot separate the dairy support program from the overall program of agriculture. In the past few days I reviewed the statements of spokesmen for agriculture both inside and outside the farm organizations. I find all sorts of schemes. One
Another proposal is that government stabilize prices with acreage controls and marketing quotas in an attempt to keep supplies in line with the demand.

Within agriculture, there are groups who support each of those positions. The answer to which program is preferred seems to depend on whether you are talking to the citrus grower, the cotton farmer, the tobacco farmer, the grain farmer, or to the dairyman.

The price support program now in effect for milk for the next 12 months is a fixed price program. The level we have been reminded is about 60 cents on farm butterfat and about $3.07 on milk. No production controls are contemplated.

In general the government cannot sell the product it once acquires on a basis which will depress the domestic market. Obviously support would be self-defeating if it did that, depress the domestic market.

CCC can sell some. It can give some away. It has done some of that. Diversion to a non-food use, or destruction is frowned upon by the taxpayer and is political dynamite.

Some contend that one way out would be to let the people buy the government stock and eat it at some price. That brings me to the Brannan Plan. Everybody so far has skirted that gracefully and I am not going to say much about it, but we can’t ignore it when we talk about policy.

Mr. Brannan’s plan, as I understand it, would not rule out any of the present program. The plan is relatively simple in outline and has a lot of appeal. Actually it is complex. It calls for a relatively high and inflexible price support with two separate programs.

For grain, cotton, tobacco and other storable commodities prices would be held by loans and purchases just as they are now. For perishables like fruits and vegetables and dairy products and similar items prices would be permitted to move freely in competitive markets. The producer would receive a check from the government to make up any difference between what he actually received on the open or free market and what the government or some agency had determined as the price support level.
All dairy products would be sold on the free market; and the producer might expect to receive a check from the government for the difference, like the direct payments we had to dairymen during the war.

No one knows what either plan would eventually cost. We can, however, take a look at Uncle Sam's pantry under each of the plans. Under a loan or purchase program we find today, Uncle Sam has on the shelf wheat, corn, and he has some perishables. Mr. Brannan's plan proposes to clear the shelves of the perishables. That is you would find no meats, potatoes, milk products on hand.

What about the price support problem? The problem of agriculture is keeping products moving and prevention of accumulations of burdensome surplus. If dairy farmers succeed in getting congress to give them a support price, which is out of line with what consumers will pay or can pay, they run the risk of losing an important market which they may never recover even at disastrously low prices. Our previous speaker pointed up that problem.

One of the major problems facing dairy groups, however, is not much the question of whether they have policy as defined in short term sense, or whether they have programs to carry it out. There is serious danger of having both these and an empty pocketbook. Press releases have indicated that CCC is already heavily committed and near the bottom of the barrel on funds. They are asking for more.

The public is impatient. They are confused by cross currents within the farm policy. Farmers lack a united front. What farm groups really want is difficult to get from the sources available to the public.

It seems to me that there is no absolute guarantee that the CCC and the Secretary of Agriculture are going to have enough money to carry out the program commitments already made. In the absence of such assurances, the most promising program, as I see it, is to make a real effort to expand and maintain the markets we already have. Price supports in that case would be used primarily to cushion the most severe shocks.

We should recognize that the dairy industry is in high favor with the public and its products are now acceptable. We need to capitalize on this.

The diets of many people would be improved by consuming more milk and dairy products. The problem is to get the product to these people. Farmers and milk processors need a harmonious working relationship with governmental agencies to get these products to consumers at a price they can or will pay.

If national policy of a growing economy can be achieved, the job will be lessened for the dairy industry. To expand sales does require a high level of purchasing power among the masses of people. It has been said that there are about two thousand ways an individual family can spend its money; and that's a lot of competition for the dairy industry.

* * *
W. F. Groves, Wis.: A farmer can turn to three sources when he gets into trouble for help. The first one has been the Lord; the second one has been the economist; and the third one has been the politician. The Lord never needed to do too much about it. The economist suggests a lot of problems which he thinks we ought to solve; and the politician has always been willing to tackle the problem. From the farmers' point-of-view we have done a lot of kicking on the way he has tackled it. It may be that we ought to tackle it ourselves.

Mr. Anderson: Mr. Roberts seemed to imply that the CCC would not be able to carry out its present commitments. Now nothing is sure but we have the money to carry out our present commitments, unless we guessed wrong on the volume of business. I say that because buyers of dairy products have used that argument to beat down the price they pay for their products. I want to give this group assurance there is not a bit of question about CCC's ability to carry out its present commitments.

Mr. McBride: The point was made yesterday in Matt Wallrich's paper about competition between the dairy farmers of Wisconsin and other midwestern states and the Eastern markets. I'd like to ask Mr. Mason as a man with long time experience in federal order markets to comment whether he sees any danger at a time like this with receding prices in the manufacturing field and increasing production in the city areas, that there will be effort on the part of outlying milk plants to ride the city market pools.

Mr. Mason: That's a question that is in the minds of a lot of people. Any pool program invites plants to participate in that pool. I am not convinced that it is a bad thing. I think that any farmer no matter where he lives as long as he can produce milk of the same quality as the next farmer, he is just as entitled to share in that market. The only requirements should be that he should meet the same health regulations and he should bear his transportation costs from farm to market. You can't go any farther than that. If you do, you are discriminating against farmers to help other farmers and the thing will blow up against all farmers.

Noble Clark: I find myself in agreement with much that has been said this morning, but I am reasonably sure that the farmers who are members of the organizations represented here this afternoon wouldn't talk the way the speakers did. Who's job is it to either bring the farmer-thinking up to where the leader-thinking is, or to get the leaders down to where the farmers are?

Mr. Roberts: Some fellows say perhaps the farmers don't know what they want. One way to find out what farmers want is to do something. They will say right away whether they want it. I would make an effort to interpret a plan to assist farm groups in appraising a plan. That's our job. It isn't our job to tell farm groups what to do. When the
business man and people who are used to control industry (shutting down industry and throwing labor out of work) recommend control of production for farmers, and farm groups haven't anything to say, I am fearful that the public will get confused. It's going to be a real job to keep the public back of farmers. I think the public has been back of farmers. But times have changed.

Comment: Farmers want to decide what they want to do. But an employee of a farm organization, or a representative of an agricultural college or of the government all have a lot of responsibility to develop thinking by farmers, and to find out what the pitfalls might be in some of the schemes "to have your cake and eat it too." Working for a general farm organization gives you a lot of leeway but you know you can cut your own throat, and until you do that you must be fairly sure you are representing their interests. The farmer members may not always agree with you but it is the responsibility of the leadership to point out the alternatives and to point out the pitfalls. That is the approach that we try to take in Illinois.

William F. Groves, Wis.: At the University of Wisconsin we have wonderful leadership. It is down to earth and as near the farmers as we can get it. It's hard for farmers to get close to the thing, close enough to the thing to really know what we want. It requires more education than a lot of us have. I remember a student who was going to school when I went to school. He was pretty dumb. The teacher asked him a question and he couldn't answer it. The teacher looked at him in disgust and said: "Johnny, you are better fed that you are taught." He said: "That's right. You teach me. I feed myself." Sometimes the farmers are in that shape too.

Comment: The big fear that I have of such a plan as the Brannan Plan whereby prices drop to the supply and demand level and government makes up the difference with compensatory payments, would be that the dairy industry being able to push retail prices down, would push them below sea level. The money coming from government and paid to farmers would be teaching consumers that food wasn't worth very much. I think we have to make up our minds that we have money to spend for a specific purpose, or we haven't. Until we are ready to do away with our money system we had better let money do the job all the way down the line and not subsidize consumers or farmers.

Comment: Secretary Brannan said specifically with respect to dairy products that federal marketing orders and the purchase program will be used wherever those are most economical and most efficient. If with a price level that is fair to farmers we still pile up dairy products, perhaps it's best to let the free market determine what to do. Reference to the dairy production payment program has misled some dairy farmers with respect to what the Secretary is talking about. Under the dairy production program we had price control. I believe the Secretary has no thought of that, but actually does have the opposite, that we will use every device that we can to encourage reasonable prices in the free market including the federal orders and the purchase program. But not use the purchase program under those circumstances which Mr. Roberts points out, will just fill up the pantry.
Mr. Roberts: The objective of the Brannan plan is good. I would have no quarrel with that except that would necessitate for practical purposes the federal order program across the country. I'm not sure that is bad either. But that would be heading back toward another OPA program. Farmers today represent about 18 percent of the votes. When it comes to deciding how high those retail prices are going to be there will be a lot of pressure to keep pushing them down.

Mr. McBride: I cannot go along on the analysis that the Brannan plan would tend to bring on another OPA. The problem would be not to keep prices from going any higher, as I understand was the objective of OPA, but to find some way to encourage or speed up the reduction of retail prices to correspond with the decline in farm level prices. The experience of the last few years is that we hadn't gotten any substantial increase in purchase of milk when we reduced the price, sometimes we got a greater increase in sales when we raised the price than when we reduced it. What would be the inducement in this set-up to bring down retail prices? It would have to be an OPA in reverse, wouldn't it?

Comment: It's kind of a Round Robin affair. First the inducement would be to lower retail prices, which increases subsidy payments. Then the pressure comes from the politicians to keep retail prices up to keep the cost of the government down. As soon as you begin to freeze prices and raise prices and stabilize prices you are back in OPA no matter how you figure. That's the reason I say you get back into regulated retail prices.

Mr. Mason: If I were a milk man and I knew the government was going to pay the bill if I didn't, I would continually drive for lower milk prices. That would go on across the country. The amount of money required to make payments to farmers gets bigger and bigger. Congressmen and people begin to react to the agricultural program. They say we cannot spend that much tax money. You can't help but get back into regimented prices. There is no alternative.

Mr. Perdue: Mr. Mason, would there be any incentive for you as a handler to widen your margin as a handler rather than lower prices to the consumer under that program?

Mr. Mason: The handler would face the same problem in competition, regardless of subsidy. He is going after sales, and that would tend to reduce handling margins, I don't think it would increase handling margins.

Mr. Anderson: The situation would be exactly the same as it is in a free market. It is not new for distributors to try to buy milk from farmers at the lowest possible price. That's an ancient habit that would persist under the Secretary's plan. Farmers think that the Secretary is saying he will pay the difference between what each individual farmer gets and the average. That is not true. He is talking about the average received by all farmers and some support standard. The farmer who got above the support standard for his milk in the market
would receive the same payment as the farmer who sold below the support standard. You would still have the same incentive of efficient marketing that you have under the present system. You would have the same incentive on the part of the distributor to buy cheap.

One of the arguments against the Brannan plan is the estimated difference in cost. In fact at the same level of support, you could argue that the production payment method would cost somewhat less than the purchase method. At higher levels of support, of course, the higher the cost. It would bring cost out in the open. The costs of the current program are hidden by the device of buying by CCC with Treasury funds. A good many people argue that that is where our taxes should be, out where everybody could look at them.

Mr. Roberts: One of the most serious things in the farm program we are talking about is relationship with consumers. By and large producer groups are not up against the consumer groups and do not know the reactions of consumers. Farmers are not in the retail business. What ever is done there is what retailers decide should be done.

"Let's consider flexible price support such as outlined under the Aiken Bill. If I understand what is intended, the purpose is not to raise the farmers' well-offness relative to the rest of economy, but to see that he doesn't bear too much loss in his out-of-pocket expenditures. Are you interested in that?

Mr. Mason: Yes. We have to recognize that we have an agricultural problem which boils down to this. At the present levels of prices we are producing more than can be consumed at prices we would like to see. We have two things to do. Maybe we are trying to support too many people on farms and maybe we should get the less efficient farmers out of business and get them in town on more productive work.

As farmers we have to recognize that we can't continually produce in excess to the needs of the country. We have to learn to farm and sell at more realistic prices. Are we going to continue to pay to maintain unnecessary production? Are we going to continue to keep inefficient agriculture over a long period of time? I don't see any necessity for that.

If we can get farming more efficient so that we can make money on farms and sell at lower prices, that is certainly to the benefit of everybody. I agree that we can't use the federal order program to establish artificial prices. We can use the federal order program to get for farmers the full value of Class I milk and to get it shared on an orderly basis so that we do have stability in milk marketing. A stable market is good, for the community as a whole as well as for the farmers. If we can improve quality of milk it has a two-fold effect -- it does tend to increase consumption which is certainly to the best interest of consumers, and it tends to eliminate the inefficient or low quality producer. Flexible supports are of public benefit if they keep prices from hitting rock bottom. That benefits the total economy because we have to keep farmers as purchasers as well as producers. If we let farm prices go too low the
tendency then is to make a living out of the soil at the expense of the soil, and at the expense of future generations. That certainly is not in the interest of the public.

Mr. Cook, Wis.: None of the things outlined in the talks, with two exceptions, could do anything to the farmers' well-offness, income-wise, relative to other segments of economy. The program outlined could do little to arrest the present decline in farmers' income.

If we could improve the efficiency of the farm relative to the rate at which efficiency is being improved in the other segments of the economy, and then be sure that the farmer gets the benefit then we would arrest the decline in net farm income.

Through marketing agreements Mr. Colbank said you can stabilize the price farmers get and bring about other beneficial effects such as cushioning from the impacts of price wars; but, you can't uphold the level of milk prices over a long period of time in a market beyond what they would be if you didn't have the agreement.

Farmers try to get a bigger share of the national pay check. Farmers in their own best interests should spend more money for advertising. Almost every suggestion on national policy was directed to what it would do to the public. I am wondering about the relative position of the farmers. Would the farmers' lot improve very much if by changes in price relationships we move inefficient farmers off and leave the more efficient farmers on the farms? One school of economists say that by changing the price relationships you can move farmers off the farm and the other group is equally convincing that you won't move the least efficient farmers off the farm. Which group is right?

Mr. Mason: The quickest way to get farmers off the farm is to have low farm prices to eliminate the inefficient producer and at the same time to have jobs in town which will attract those people. I realize that this is a difficult adjustment; but it is an adjustment that we have to make. To maintain artificial prices, and keep inefficient agriculture, and keep people on the farms who are not needed, is not in the best interest of the country.

Mr. Groves: Being a farmer that makes me feel uncomfortable, this talking about moving. I wonder if I am one of the checkers, if I'm one that's going to be moved or where I am going to be moved. Maybe the farmer ought to have a little to say about that, too, and not leave it all to the managers and the economists. There is a big danger in any government program in subsidizing inefficiency. An inefficient farmer ought to go broke just the same as an inefficient grocer or anyone else.

Martin Lynch, Mich.: This efficiency is a ticklish thing for we farm folks and I am a farmer. I am not a college man.

The Michigan Milk Producers association for five years has been carrying on a cost of production program. We made an effort to select the average farm, the average dairyman. We have a hundred farms in
that program. We worked with Michigan State College and furnished money to provide a fieldman. He goes to the farm. He watches the farmer do the chores. He checks his time. He checks the hired help's time. He checks the feed. The farmer charges to his herd the feed that he grows at what he can sell it for and the feed that he buys at what he has to pay for it. He knows what he pays his hired help. His own time we leave to him. He has figured that all the way from 50 cents an hour to $1.25. For taking care of the cows last year the farmer received an average of 93 cents per hour. The average butterfat was 293 lbs. per cow. The lowest production was well under 200 pounds. When we charge for everything that was put into the herd, other than labor, the men owning the ten lowest herds received $0.03 per hour. The ten highest herds' production was well over 400, paid the men $3.39 per hour.

I don't think farmers are any different than anybody else. They are intelligent and anxious to do the thing that is best for them.

"Who might you move?" Might you move the inefficient fellow or might you move this $3.39 an hour guy that is so disgusted with the rest of them that he is willing to go off?

When I give you cost of production figures on our own market I have no apologies to make. I had occasion to go over several states looking over federal orders and calling on farmers. I find that we do the job up in Michigan about as good as they do anywhere. So I think I am talking for farmers. They may not like to hear what we are talking about; but, we have a problem back home on pricing milk as well as down here.

Mr. Mason: The men that are making $3.39 an hour on the farm aren't doing a thing that the three-cent men can't do. Are we going to have price levels that keep that 3-cent man in business, or are we going to let him fall out if he can't get in and do the job that can be done? I think that very fairly illustrates the whole agricultural program.

We talk about marketing and I worked in marketing all my life. Perhaps in our efforts to solve the whole agricultural program through marketing and through price we are overlooking further education to get cost of production down, to get yields up.