In the last six months, several studies, or papers, dealing with the impact of milk orders on consumers have been released and widely publicized. (See page 21 for list of these studies.)

All these studies were undertaken in a highly theoretical setting and all concluded that milk orders have adversely affected the price consumers pay for milk.

I welcome the opportunity to comment on the main issue raised in all these papers--Do Federal milk orders serve the public interest?

Inasmuch as I have spent 40 years of my life administering the Federal milk order program, one might assume, and rightly so, that I do not approach this subject completely uninhibited. But, I also find it difficult to comment on these papers because obviously the authors and I start from different philosophies, if not different worlds. They deal in a world of assumptions and theory. My world is that of drafting and administering provisions of Federal regulation that will apply in a practical way to a very complex marketing system. Consequently, I think my most valuable contribution would be to give the setting for the Federal order program as I see it and then each of you can decide the merits of the conclusions reached by others.

The Act of Congress authorizing Federal milk orders sets out in general terms the specific kinds of provisions that must be and may be included in such orders. For example, the Act specified among other things
(1) that milk shall be classified according to use, (2) that minimum prices that milk dealers pay to dairy farmers shall be established for each of these uses, (3) that there be an equalization of those prices among all dairy farmers, and (4) that no resale prices be fixed. The Act also requires that all provisions of every order shall be based on evidence received at public hearings.

The question the authors of these papers really raise is whether Congress should repeal the laws which authorize Federal milk orders and milk price supports. Only by implication do they appear to raise questions as to the administration of either of the programs. To answer the question that they raise one would have to study (1) the reason why Congress first passed these laws, (2) whether these programs have done the job that Congress intended, and (3) whether the problems intended to be corrected still prevail, or are likely to prevail in the future.

The history of agriculture during the 1920's is a history of the attempts of all farmers, including dairy farmers, to correct the disparity between their incomes and outlays. Their efforts included appeals to their State and Federal legislatures. Farmers were partially successful in their appeal. Congress passed a number of pieces of legislation for the purpose of aiding agriculture. It passed the Capper-Volstead Act, emergency tariff acts, the Federal Immediate Credit Act, and the Agricultural Marketing Act of 1929. In addition, the Bureau of Agricultural Economics was established in 1922 in the belief that economic research could help farmers solve their price and income problems.
But agriculture still did not fare well. Most of the endeavors to aid agriculture were confined to efforts to influence the flow of farm products to markets through aid to cooperatives and through stabilization purchases. Farm organization leaders, rural legislature and agricultural newspapers became increasingly impatient and directed more attacks to programs that moved more directly toward boosting prices without the long process of agricultural readjustment and reorganization. These people became interested in such legislation as the McNary-Haugen Bill and the Agricultural Marketing Act of 1929. It was evident in the last year of the Hoover Administration that these more aggressive measures to deal with the problems of agriculture were gaining acceptance by farm leaders, Government officials, and members of Congress.

Dairy farmers were particularly well represented in all these efforts during the 1920’s. Dairy farmers were faring no better than the rest of agriculture despite the growth of their cooperative associations. Dairy farmers still were being cut off by milk dealers, milk strikes often with violence were taking place, unfair trade practices including that of buying milk from farmers at inaccurate tests and weights and at surplus prices while selling it for fluid use were prevalent.

All these factors contributed to a very unsettled and unsatisfactory state of affairs. Both the State and Federal Governments were busy studying plans to alleviate the situation. The depression only contributed further to the sad plight of the farmer, including the dairy farmer. I do not think it accurate to describe these efforts as the author of one
of these papers does at attempts of "an economic group to insulate itself from economic forces." If anything they were attempts of dairy farmers and their representatives to get into a position, as we say in these days to be "part of the action."

Milk was made a "basic commodity" in the original AAA legislation which made it among other things eligible for production control. No production control program could ever be worked out because of the "complexities" of the milk industry. Yet the Administration in 1933 found it necessary to offer some kind of relief to the dairy farmers. Milk prices in many areas had dropped to less than $1.00 per hundredweight. Dairy leaders themselves proposed the using of the "licensing provisions" of the Act to regulate fluid milk markets along the lines of the marketing program that the cooperatives and milk dealers had been working on voluntarily, but with only partial success. The licenses were an immediate success. Nearly 100 licenses were issued in the first two years of the AAA. Consequently, when the Supreme Court declared the processing tax provision of the AAA unconstitutional there was an immediate request for Congress to validate and re-enact these licensing provisions of the Act. This Congress did in the fall of 1935 and then re-enacted them in 1937 in modified form. (In the process they changed the terminology from license to orders.) Obviously, Congress thought at that time that the milk order system was making a contribution to the public welfare and was more than a depression-oriented program. As you recall in 1937, the
country was coming out of the depression. But dairy farmers, milk dealers, and Congress were not prepared to have the industry revert to the unsatisfactory situation of the 1920's.

The Federal milk order program in my view is a real success story of a governmental program operating in a very complex field. Since 1933 it has gained the respect of dairy farmers, milk dealers, and many others who have had to try to deal with the problems of the dairy industry. That is not to say that these various groups do not have serious criticism of some aspects of the milk order program. (I might say that there is little agreement on which aspects are good and which are bad.) But, none of them seriously questions the contribution that orders have made to establishing more orderly marketing conditions.

The program has provided dairy farmers, handlers, and consumers an effective means of resolving, or at least substantially mitigating, some of the problems which are inherently associated with milk marketing at the farm level. It has provided the power and responsibility of a cabinet officer acting under specific guidelines set forth by Congress and the restraint of the Federal courts to review and resolve conflicting points of view.

The requirement that all decisions be based on evidence received at public hearings has given interested persons not only the opportunity to appear and express their views, but also the opportunity to present their own proposals for new orders and changes to existing orders. I want to
emphasize also that all phases of the administration of the program are very specifically set out in the law, and that every provision of every order must comport with the provisions in the law itself.

The role of the U.S. Department of Agriculture in administering the program has been to provide a "public interest" balance in the resolving of the economic differences among producers, distributors, and consumers of milk and dairy products. As a distinguished group of dairy economists observed about 10 years ago, the order program is a "truly unique marketing institution neither quite free nor fully controlled but heavily conditioned by both private and public mechanisms and policies."

The Federal order program has shown a remarkable ability to adapt itself to change. Part of this ability can be ascribed to the considerable responsibility which has been put on the industry and other interested parties to propose and support changes at public hearings. The program has undergone numerous and substantial changes over the years to meet changes which have taken place in the marketing of milk. Some of the changes that have taken place to which orders have had to make accommodations would include:

1. A drop in the number of dairy farmers from three million to around 300,000.
2. A drop in the number of milk distributors from 30,000 to around 3,000.
3. An elimination of over 1 1/2 million farmers shipping cream, many of whom converted to whole milk shipments.
(4) An almost complete conversion of the fluid milk markets from can deliveries to bulk tank deliveries.

(5) The erosion of restrictive health regulations and the tremendous expansion of both supply and distribution areas.

(6) The shift from home deliveries to chain store purchases.

(7) The trend toward eating more meals away from home.

(8) The drop in the consumption of dairy products particularly in butter from a per capita consumption of about 16 pounds to that of about 4 pounds.

(9) The closing of many small receiving and distribution plants and the opening of larger ones collecting and delivering milk over wide areas.

(10) The growth of well-organized and larger cooperative associations.

(11) The conversion of most of the milk supply to a single grade of milk (Grade A) and the development of an industry where the fluid and manufacturing segments are closely coordinated.

Federal milk marketing orders did not cause these dramatic and dynamic changes in procurement, distribution, consumption, and organization. Technological advances particularly in the area of refrigeration along with better roads and the breakdown of local sanitation barriers were some of the things that made it possible to move milk over broad geographic areas. The wider movement of milk in turn necessitated the development of organizations which could effectively market milk over these wide areas.
Regional cooperatives then were developed in response to the need for organizing supplies for these large plants as well as holding and manufacturing of reserve supplies, and also to represent more adequately their members in bargaining with large and more centralized milk distributors.

Local markets gradually lost their identity. This trend required a defining of larger marketing areas in order to recognize the changes taking place in milk marketing. The number of Federal orders dropped from 83 to 56 but with more area and more milk being regulated. These fewer and larger orders did not come about because of a policy decision in the U.S. Department of Agriculture in favor of large orders over small orders. Nor did the closer coordination and more uniformity of order provisions come about because of policy preference for more uniform provisions as distinguished from provisions which attempted to reflect local area considerations. They came about because the area within which local considerations could be given primary emphasis was dissolving and the need to approach problems in terms of a broad national or regional framework increased. What is important to note is that the Federal milk order program not only accommodated itself to these changes but, I believe, made it easier for the changes to take place without disruption and disorder. All these changes made for a more efficient dairy marketing system which kept the price of milk lower to the consumer.

Milk marketing in this country will continue to change. Adjustments which are going to take place will be more and more complex. Just one
example of these changes is that of the conversion of Grade B milk to Grade A. We still have about 20 percent of our milk being delivered as Grade B milk and this is gradually being converted to Grade A.

The Federal milk marketing orders have been a part of the environment in which these changes have been made and I think that milk orders will continue to facilitate changes in an orderly fashion in the future. But to do so, milk orders will require inputs and constructive criticism of milk producers, milk dealers, consumers and other public interest groups as well as the Government. We welcome the interest that people such as you have in questioning and analyzing the operations of milk orders. I ask only that you undertake analyses with the objective of shedding light rather than heat on the subject. Shedding light on changes needed in milk marketing regulations will require:

(1) A careful review of the complex problems involved in milk marketing, (2) a study of the functions that milk orders play in this system including the provisions of the law such as classified pricing, and (3) an appreciation that economic reality is never as neat and precise as the concept of economic theory.

I know how milk markets operated in the absence of regulation in the past. I do not know and I believe no one else can know what kind of a system would prevail if regulations were now eliminated. But I feel safe in presuming that milk prices would not be determined under conditions that even remotely approach what economists call "pure" or "atomistic"
competition. Yet this appears to be the basis on which the authors of recent studies of the impact of Federal orders all base their conclusions. Those were not the conditions prevailing in milk markets prior to Federal milk regulation, and the conditions that did prevail were not acceptable to anyone. Some method of settling the numerous disputes that often resulted in strikes and violence had to be developed.

What do I mean by understanding the problems involved in milk marketing and the functions of milk orders including the use of classified pricing? The major problem in milk marketing and the one from which many of the other problems emanate is milk's inherent instability associated with its perishability and sharp daily, seasonal, and cyclical variation in supply relative to demand.

Problems of milk marketing do not appear to be confined to certain areas or even to certain countries. It is not entirely by chance that milk is the only agricultural commodity for which prices are regulated by many States and by the Federal Government in the United States, or that Government milk marketing and pricing schemes have been instituted by the governments of every major milk producing country.

The system of classified pricing was developed long before Government involvement as an effective means of settling disputes between milk dealers and milk producers. In unregulated fluid milk markets, producers have little assurance of a market for their milk at a fair price or even at any price when dealers have milk offered to them in excess of what they need for fluid use. Only by offering that excess milk at a price so that
the dealer can manufacture it and sell the products in the open market can producers get any assurance of regular markets for their milk. On the other hand, a processor who desires to have a supply of milk for ice cream, cheese, or a butter and powder operation in conjunction with his fluid milk business has to have a supply of milk at a price which would allow him to make those products and compete for customers who can buy such products on the open market from unregulated sources.

Milk was bought on a flat price or single price basis in many markets by many dealers, but each of these milk dealers made his own calculation as to how much milk would go into fluid use and how much he would have to manufacture as a basis for arriving at the price he would pay. It is all well and good for economists to theorize that in the long run that these calculations would arrive at an equilibrium but in the real world of milk marketing the road to that equilibrium was rough. As a result, many wasteful practices developed, all of which had to go into the cost of a bottle of milk. If economic forces without Government regulations can satisfactorily, and without cost to the public, result in an efficient marketing system then it should be allowed to do so. But when it is obvious those economic forces create disorder before arriving at an equilibrium, then it would seem only good sense to provide a system whereby the result could be accomplished without such disorder. The Federal order program has done this.

I am not in favor of lightly experimenting with such an important industry and the powerful economic forces involved. We might all agree
that milk marketing conditions today are vastly different from those
that prevailed in the 1930's but there are enough of the factors, which
I have already alluded to, which are inherent in the dairy industry that
would suggest that there is still need for Government involvement in the
marketing process.

We are well aware of the dangers of misuse of Government authority
either because of misjudgment or lack of judgment. That is why we are
constantly seeking out advice, counsel, and even criticism of the kinds
of prices we establish in milk orders.

Let me just review the pricing mechanism under Federal milk orders.
Very early in the history of milk regulation a serious dichotomy arose
among the policymakers with respect to the kind of prices that would or
could be established by milk regulation. One group maintained that the
only effective way of increasing dairy farmers' income was to establish
a higher than competitive price and then control production commensurate
with the price established. A second group felt that an estimated
competitive price with a correction of the imbalance of bargaining power
between producers and handlers would result in an improvement in farmers'
income. As I noted before no production control was ever established in
the dairy industry for many reasons. The competitive price group finally
won out and that became the policy which has been followed in the
administration of the milk order program.

When milk markets were local, and because of difficulties in shipping
milk long distances as well as "health" regulation barriers, producers in
local markets felt that prices should be established solely on the basis of local supply and demand conditions. These prices might or might not have any close relationship to prices prevailing in other markets or to dairy product prices. It was recognized that as developments made it possible to move milk between areas, there had to be a coordination of prices. Along with this recognition was the political difficulty of explaining different price levels in different markets. As a result it became necessary to coordinate prices between markets in such a way that no market would have a price higher than the price at which an alternative milk supply could be obtained.

Neither in theory nor in practice can Class I (fluid use) prices established under Federal orders be considered as monopoly prices. I say this because no market has a monopoly (which to me means a control over the supply) since all milk in the country is available to any market in the country. Our pricing system has operated to bring about an equilibrium in a freely competitive situation. For example, from May to September 1974 Federal order Class I prices declined $1.86. This is hardly the type of price adjustment that is associated with efforts to insulate dairy farmers from the forces of supply and demand.

We have followed approximately the same Class I pricing policy in the Federal milk order program for over 25 years. The largest available alternative milk supply for any market is in Minnesota and Wisconsin. This is particularly so if one considers as potentially available the large supply of Grade B milk. By obtaining the price actually being paid for that
Grade B milk which is not regulated (except through price support), adding a factor for the additional cost of producing Grade A milk, and the cost of moving that milk to the fluid milk market, we are able to estimate what we feel is a competitive price for Class I milk in the upper Midwest and this price plus transportation tends to set the level of prices in other parts of the country. If milk dealers in the South, for example, find it necessary to obtain some supplies out of Wisconsin, they tend to pay to their regular producers a price reflecting about the Wisconsin price plus the cost of transportation. In other words, if milk from Wisconsin would cost a milk dealer $8.00 per hundredweight and it would cost him $2.00 per hundredweight to transport it to his own market, then he would tend to pay local producers $10.00 per hundredweight for local deliveries. In this way an equilibrium would be reached in each market at a level related to the Midwest Class I price plus transportation.

Many analysts feel much discretion can be exercised in the fixing of the Class I price. Consequently, our policy has been and still is subject to considerable criticism. Dairy leaders and many economists feel that the Government should not confine itself to what they think is a short-run competitive price related only to the dairy industry. For example, some advise us that dairy farmers are entitled to have their returns fixed at a level more commensurate with prices prevailing more generally in our economy. Others advise us that our prices should be based on calculated costs of milk production. Other producer groups and a number of dairy
economists have recommended that prices be based on a formula that directly takes into account a combination of changes in milk production costs, consumer purchasing power and other broad economic indicators.

All these groups point out that Class I milk prices have not kept pace with prices of other commodities. Dr. Alexander, a professor at Louisiana State University, expresses fear that by a continuation of our present pricing policy the dairy industry of this country will gradually be lost. Most studies which have been made of costs of milk production in all parts of the country indicate that they exceed Federal order prices.

It is understandable that some economists and others question the current need for a Government program that originated in the depression years. Certainly the industry has changed and farmers are better organized than they were in the 30's. But, as I pointed out earlier, classified pricing was not a development of the depression but was a pricing system that was voluntarily worked out between farmers and dealers many years before. And the unique characteristics of milk that made classified pricing essential in the early part of the century still exist today. Milk is still a perishable commodity that must be marketed daily, irrespective of processors' fluid needs and reserve supplies of fluid milk have no better market than in manufactured products which are in direct competition with products made from manufacturing grade milk. In fact, one of the important marketing improvements of the 50's and 60's would have been far more difficult to implement in an orderly fashion if it had not
been for classified pricing and it has underscored the role that classified pricing plays in an orderly and efficient marketing system. I refer to the practice of handlers to process, package and deliver milk to stores on only 4 or 5 days a week, leaving 2 or 3 days of production to seek outlets in other than in fluid markets.

No theorizing will eliminate the reality of having milk in the marketplace exceeding the amount which milk dealers need to put in the bottle either on a daily or seasonal basis. Moving the price up and down will not clear the market. Being able to predict these fluctuations, even if this were possible, would not be very helpful and would not obviate the need for classified pricing. That excess milk must go into by-products or be wasted. The by-products will have to be sold in competition with those same products brought into the marketplace without the same costs involved in transportation or sanitation regulation. The relative amounts of such reserve milk will vary among milk dealers. What more reasonable basis of pricing that milk could be developed than to price it at the same level as unregulated processors pay their farmers for milk used to make those products? That is the price we use for pricing Class II milk in Federal milk orders.

Let us now turn to the price support program. Price support legislation requires a minimum level of support at 75 percent of parity. The Secretary may support prices at levels up to 90 percent of parity if he determines that it is necessary to assure an adequate supply. Over the
years, the Department has many times set price support levels above the
minimum, and on a few occasions, has set price support at the maximum
level, though not in recent years. At the present time, the level is about
80 percent.

The question really raised by critics of Government dairy programs
again is whether the law should be repealed. Their arguments are based on
the high cost to consumers and a feeling on their part that farmers have
received too high a price. In agriculture and particularly dairy more
than in other parts of our economy higher prices mean greater production.
Therefore, we must look to the amount of milk production we have induced
with the prices which farmers have received. Has it been excessive?
When the largest reserves were developed, support prices were above the
minimum level. So that one would have to conclude that in these cases it was
a judgment decision and not the fault of the law if these reserves were
excessive. But were they excessive? In the last 10 years Government
price support removals have averaged less than 4 percent of total pro-
duction. A reserve supply in this country particularly when the industry
has turned much of the reserve supply storage over to the Government of
less than 4 percent cannot be considered excessive. I have heard officials
from the State Department and other agencies involved in foreign affairs,
as well as Secretaries of Agriculture, point out the great contribution
that our dairy products have made in bettering world conditions. And
certainly, particularly before the stamp plan, no one can deny the need
for dairy products in our own school lunch and relief programs. Purchases for these outlets would have had to be made even without a support program. Virtually none of these purchases have been lost. They were all consumed, and often at a lower cost to the Government than if the products were bought in the open market.

Congress on a number of occasions has reviewed the level at which dairy prices were supported and has either passed resolutions or laws indicating or requiring that higher levels of price support for dairy be established. The most recent action was in 1973 when the minimum levels were increased from 75 percent to 80 percent. Congress must have felt and probably still feels that the Department is not assuring dairy farmers enough income to maintain our future dairy enterprise. Both the price support and milk order legislation were amended in 1973. These amendments directed the Secretary of Agriculture, to establish price support levels and milk order prices, at levels which not only were adequate to meet current needs but also at levels to assure a level of farm income adequate to maintain productive capacity to meet anticipated future needs.

One would expect that if over the long run we had kept prices too high we would not develop any shortages at those levels. But the facts show that in 1973 and in early 1974 acute shortages of manufactured products developed and domestic production had to be supplemented with significant quantities of foreign imports. At the present time, prices are far exceeding price support levels even at 80 percent of parity because supplies are not adequate at those levels. Total production in the United States
has fallen from a high of almost 126 billion pounds in the early 1960's to a present level of around 116 billion pounds. One can hardly conclude from production responses that prices to dairy farmers have been too high.

Before I conclude I might add a few words about my own philosophy. While it is an obvious fact that economic forces are constantly tending to work out their own equilibrium, I believe that human knowledge has progressed to a point where in some cases a little social engineering can bring about equilibrium more promptly and at less cost and of a more desirable character.

Trained intelligence affords more expert guidance as to the conditions to be met, the adjustments needed to them, and how orderly and coordinated actions to this end may be effected than the theoretical analysis of individuals unfamiliar with the functions of the program or the industry it regulates. If I understand dairy farmers correctly they are not in a mood to let fine spun theories and interpretations keep them from having the marketing tools they need to achieve a degree of competitive equality with large corporations in meeting nationwide problems in milk marketing and pricing. Nor do I think that consumers are going to be satisfied with frequent strikes and the withholding of milk supplies. Our experience with milk programs shows that they can facilitate orderly adjustments in this important industry and avoid many of these disturbances.

Many aspects of our economic and political systems are impossible to quantify. And it gains us little to attempt to put a dollar value on them.
Market stability is one of these factors. It instills confidence. Milk programs have given dairy farmers a feeling of security. When a dairy farmer feels this security, he goes ahead with his affairs in a business-like way. He maintains his machinery, his barns, his fences, and his home. He becomes a steady and dependable supplier. He becomes a steady and dependable customer. And when we have 300,000 dairy farm families feeling some security then we have a sound kind of confidence—confidence in the integrity of the home, confidence in the safety of our system of individual enterprise, faith in the preservation of American Freedom and faith in the future of American democracy.
Recent Studies or Paper Dealing with the Impact of Milk Orders on Consumers


