

MILK PRICE CONTROL IN PENNSYLVANIA

*Report of the Public Members
of the Governor's Milk Control Inquiry Committee
Commonwealth of Pennsylvania*

FEBRUARY 1, 1965

State Milk Control
Resale Price Control

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Submitted by

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5818 Northumberland Street
Pittsburgh, Pennsylvania 15217
February 1, 1965

The Honorable William W. Scranton
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

Dear Governor Scranton:

I am transmitting the report prepared by the public members—Messrs. J. E. Holtzinger, Frederic K. Miller, and myself—of the committee you appointed in September 1964 to draft recommendations for statutory and administrative improvements in the system of milk price control in the Commonwealth of Pennsylvania.

The full committee consisted of ten members. Five of these, Messrs. John B. Backhus, Glen A. Boger, E. J. Farabaugh, Louis G. Galliker, and J. Lewis Williams, were appointed from groups within the milk industry—milk producers, dealers, and driver-salesmen. Two members, Mesdames Stanley Dombroski and Martha G. King, were appointed as consumer representatives. The remaining three members, those who prepared this report, were appointed as representatives of the general public interest.

The committee has worked diligently in the intervening months examining economic data on the milk industry, reading and hearing testimony of interested groups, and discussing the issues in an extended series of committee meetings. By the end of January it was apparent that a comprehensive report could not be prepared commanding the support of a majority—more than five—of the committee members. A unanimous report was out of the question.

Under the circumstances, the public members decided it would be helpful to you and to the Legislature if we presented to you the report we had drafted for review by the full committee in its meeting of January 28 and 29, even though it was not adopted by the committee. This report represents our best judgment as to the changes needed in the Pennsylvania Milk Control Law and its administration.

To avoid creating the impression that the disagreement among committee members was more general than in fact it was, I should state that the principal findings and recommendations that were generally rejected by the industry members, but supported by the public members, were those numbered 2, 4, 11, 13, 14 and 15. However, since the report as a whole was not submitted for final approval to the entire committee, all of its recommendations are now being submitted by the public members only, and do not commit the rest of the committee.

It was agreed that other committee members should be free to prepare recommendations for submission to you, and several are, I believe, planning to do so. I shall also be glad to make available to you and to members of the Legislature recommendations submitted to the committee by other groups whose economic welfare is affected by milk price control. Because of limitations of the size of the committee, many of the groups—for example, dairy stores, milk producers who sell directly from the farm, the principal milk producers' bargaining cooperatives, retail stores, restaurants, and institutional buyers—were not represented among the committee's industry and consumer members.

I personally regret that the full committee was unable to reach a complete meeting of minds on the action to be taken. Lacking that, and in the light of the great diversity of interests affected by the milk industry, the public members thought it would be at least useful to provide a set of recommendations from three citizens of the Commonwealth who, without major personal involvement in the industry, tried to the best of their abilities to view its very genuine problems from a sympathetic and long-range viewpoint.

Finally, I should like to thank all members of the full committee for their earnest labors in its behalf, and for their sincere and diligent attempt to find common ground. We have had cordial cooperation from Mr. Lin Huber, Chairman, and Mr. Maurice Martin, Chief Administrative Officer, of the Pennsylvania Milk Control Commission, and from industry representatives and citizens, too numerous to mention, who took time and trouble to prepare briefs for the committee and to meet with it. Special thanks are due to Professor C. W. Pierce of the Pennsylvania State University who shared with the committee his expert knowledge of the economics of the milk industry, and made available to it the best thinking of the economics profession about its problems.

Yours very truly,

HERBERT A. SIMON, *Chairman*
Governor's Milk Inquiry Committee
Commonwealth of Pennsylvania

A Summary of Findings of Fact and Recommendations

[Recommendations not requiring legislative action are marked with an asterisk (*); recommendations for changes in the Milk Control Law are marked with a double asterisk (**).]

1. Regulation of Pennsylvania's important dairy industry must take realistic account of the economic interests and relations that are involved, of the large interstate flows of milk, and of legal limits on the power of the Commonwealth to regulate interstate commerce. If controls are to be effective they must be generally consistent with market forces. They should encourage the orderly adoption of new efficient methods and technical procedures in the industry.

Producer Price Control

2. Producer price control has the important effect of stabilizing prices received by farmers for their milk; although it has had only minor long-run effects upon the average prices received by farmers. Increased fluid milk prices have regularly caused increased supplies of surplus milk, which have again reduced the price received by farmers approximately to its present level.

3. The Pennsylvania Milk Control Commission is to be commended for its recent actions to bring Western Pennsylvania milk producer prices into line with economic market forces; this policy should be maintained and extended throughout the State.

*4. Price control can be fully effective only when it applies to substantially all milk shipped into a market area. Because the Western Pennsylvania milk market is essentially an interstate market, we believe that any order that does not regulate interstate shipments will fall short of its object. Therefore, we recommend that the Milk Commission and the Attorney General of the Commonwealth explore with the U. S. Department of Agriculture effective methods for taking joint action to regulate milk prices paid to producers in Western Pennsylvania, and take steps to ascertain the preferences of producers in this region with respect to such regulation.

**5. We recommend that the standard in Section 801 of the Milk Control Law for setting producer prices be amended to instruct the Commission explicitly to take into consideration "current and prospective supply and demand for such milk."

**6. We recommend that the special privilege extended in Section 809 of the Milk Control Law to cooperatives organized before 1937, allowing them to pay lower prices than other cooperatives to their producers, be terminated, by deleting from the third paragraph of Section 809 the phrase "organized after the effective date hereof." This deletion would place all milk marketing cooperatives on an equivalent footing with respect to payments to members.

*7. We recommend that the Commission seek means for reducing the frequency of hearings, by reducing the number of areas for which separate producer prices are established. We suggest that the Commission consider formula pricing as a means for assuring maximum compatibility with Federal market order prices in areas of joint jurisdiction.

Wholesale and Retail Price Control

8. It is widely believed that wholesale and retail price controls protect small independent dealers from unfair trade practices. It is a fact that price wars occur from time to time in unregulated markets. The evidence, although inconclusive, indicates that small dealers (say, selling less than 2,000 quarts a day) have disappeared more rapidly from unregulated than from the regulated markets. The reduction in small dealers in all markets has probably been associated with the shift from home delivery to store sales, and with economies of large-scale processing.

9. Wholesale and retail price control places the control agency in the position of adjudicating between "jug" sales, store sales and retail sales, between consumers and dealers, paper containers and glass, gallons and quarts, skim and whole milk, and places a heavy responsibility on the agency for recognizing and encouraging new efficient methods of distribution.

10. The evidence is inconclusive as to whether dealer margins are larger or smaller, on the average, when prices are controlled than when they are not. If there are systematic differences, these are small.

**11. We recommend that Section 310 of the Pennsylvania Milk Control Law be amended to remove the existing privilege of confidentiality from records of dealers that are used, directly or as components of composite figures, at price hearings; and to permit a scrutiny of dealer reports submitted to the Commission in a manner similar to that now permitted in public utility rate cases in the trucking industry.

**12. We recommend that the Milk Control Law be amended to provide that if the Commission changes a final order substantially from the provisions of the tentative order, a further hearing or conference should be scheduled before the new final order is promulgated.

**13. We recommend that Section 801 of the Law be amended to exempt sales to governmental institutions from price control when purchases are made by competitive bidding.

*14. We recommend that the Commission take the initiative in considering and introducing price differentials, in order to take advantage of new distribution methods and efficiencies made possible by technological change in the industry. In particular, we recommend that a price differential be established by the Commission for milk sold at retail at the point where it is pasteurized and bottled.

**15. We recommend the following two modifications of the present provisions of the Milk Control Law for wholesale and retail price control:

a. That Section 802 of the Law be amended to make the control of minimum prices permissive for the Commission rather than mandatory.

b. That the standard in Section 801 of the Law for setting minimum wholesale and retail prices be amended to provide: "Whenever it exercises its power to set minimum wholesale and retail prices, the Commission shall fix these prices at levels no higher than is reasonably necessary to prevent instability in wholesale and retail markets, and to prevent unfair trade practices."

Organization and Administration

16. We recommend no statutory changes in the organization of milk control or the Milk Control Commission. The present organization can operate effectively with proper staff and budget.

*17. The proper role of the Commission is not simply that of a judicial agency, hearing testimony of parties desiring changes in its orders. It is responsible for using

its powers to ensure that the milk industry in Pennsylvania will operate in an efficient and economically healthy manner, and that the industry will respond promptly to changes in the technology and economic conditions of the industry. To accomplish this goal, the Commission must take greater initiative in investigating the economic conditions in the industry and the changes that may be desirable, and must take greater initiative in proposing changes.

*18. We commend the Commission for such recent actions to improve its operations as the broadening of the functions of its Secretary, and the appointment of a professional milk economist as its chief administrative officer. We recommend that the Commission take vigorous steps, and continue action already under way to:

a. Strengthen the technical competence of Commission personnel through raising the relevant professional qualifications for positions on its staff, and observing merit system principles in appointing staff;

b. Adopt a satisfactory system of uniform accounts and reporting forms for milk dealers;

c. Provide more adequate public information about the economics of the milk industry, and improve the statistical reports issued to the public and submitted in evidence at hearings. Except as provided in paragraph 11, above, data obtained for statistical purposes should preserve the confidentiality of information from individual firms.

*19. We recommend that the Commission employ a full-time attorney as Chief Enforcement Officer, and in addition, that sufficient budget be provided so that the Attorney General can assign a genuinely full-time attorney to the Commission to handle court actions on its cases.

*20. The Milk Commission needs a larger budget if it is to enforce the law effectively and to exercise the kind of initiative and leadership we have recommended. In particular, its budget must permit it to set salaries at levels that will attract and retain the services of well-trained and able personnel throughout.

21. With a strengthening of its staff and budget, the Commission will be able to enforce its price regulations in a more consistent and thorough manner than is now possible. However, while evidences of violation and evasion call for vigorous enforcement, they also call for examination to determine whether the Commission's price orders contain economically unrealistic provisions that invite evasion.

Milk Control in Pennsylvania

Recommendations of the Public Members of the Governor's Committee of Inquiry

Dairying is one of the largest and most important industries in Pennsylvania. Milk, produced on more than 20,000 farms, accounts for 40% of total farm income in the State. Fluid milk is distributed by over one thousand licensed handlers (not including retail stores), who employ more than 31,000 persons. And finally, milk is an important food item for a large fraction of the State's twelve million consumers. Farmers, dealers, storekeepers, drivers-salesmen and other dairy employees, and consumers all have a genuine concern with the milk industry, and a significant number of families in the State depend on it, in whole or in part, for their livelihood.

All of these individuals and groups have a common interest in maintaining a healthy milk industry, and an adequate supply of pure, wholesome milk. But within this over-all common goal, there are many conflicts of interest, some obvious, some subtle. The most obvious is that if the consumer pays less for milk, as he would naturally like to do, the price reduction has to be passed on to dealers, in the form of lower profits, to their employees, in lower wages, or to farmers, in a lower price for their milk. Conversely, any increase in the price paid to farmers will affect adversely the economic interests of one or more of the other groups. Less obviously, an increase in the differential between the price of milk at the store, and milk delivered to the home, respectively, will have diverse effects on storekeepers, on driver-salesmen, on consumers who want home delivery service as compared with those who buy their milk at stores, on dealers who sell to stores as compared with dealers who sell at retail, and on farmers who sell to the former dealers as compared with farmers who sell to the latter. These are only a few examples of the many complexities of the industry and of the multitude of interests that are affected by its regulation, whether this is accomplished through market mechanisms or through government control.

State boundaries introduce another important set of complexities into milk production and distribution. A very large percentage of milk crosses one or more state lines from the time it leaves the farm until a consumer

buys it. In Pennsylvania, interstate milk shipment works both ways. On the one hand, Pennsylvania farmers depend on out-of-state markets for the disposition of almost one-half of the market milk produced in the State. In addition, dairy products—ice cream, butter, milk chocolate, and cheese, for example—manufactured in the State are shipped in large volume to other states for sale. On the other hand, substantial quantities of milk consumed in the State, particularly in the Western counties, are imported from Ohio. Ohio is the source of approximately one-fifth of the Pittsburgh milk supply. Even Eastern markets in the Philadelphia area receive some fluid milk from points as distant as Wisconsin. The Commonwealth of Pennsylvania has very much less power, legal and economic, to regulate these interstate transactions than it does to regulate transactions that take place wholly within the State.

Until 1934, milk prices in Pennsylvania, producer prices, wholesale prices, and retail prices were determined by the forces of the free market—that is, by bargaining among the interested parties. At that time, in the face of disastrously low prices, Pennsylvania and many other states intervened in the price-setting process, introducing one or another form of governmental control. Since 1933, the Federal government has also regulated producer prices in a growing number of milk marketing areas. In Pennsylvania today minimum prices paid to producers for milk, and wholesale and retail prices are set by the Pennsylvania Milk Control Commission, but well over half of the State's milk producers, and some sixty per cent of the milk production, also come within the jurisdiction of Federal marketing orders for the Delaware Valley (Philadelphia), and New York-New Jersey areas.

Government controls of milk prices are best understood as supplementing and modifying the operation of economic market forces, rather than setting aside these forces or eliminating them. All milk pricing takes as its point of departure the price for manufacturing milk, as determined in highly competitive national markets (modified by Federal support prices at or near parity

levels). The prices of other forms of milk—for example, milk for fluid consumption—can be related to the price of manufacturing milk by taking into account differentials in cost of production (due to varying sanitary requirements), in transportation cost of dairy products in different forms, and in distribution through different marketing channels. Prices set by governmental agencies can modify and alter these differentials somewhat, but when they are too much distorted, market forces, operating both through legal mechanisms, and through evasion and actual violation of controls, tend to restore them to their “normal” levels. If there is one point on which the experts in the industry agree, it is that milk price controls operate satisfactorily only when they are administered with a realistic understanding of the economics of milk production and distribution, and in such a way that market forces will generally support, rather than undermine, the controls. The function of controls is to facilitate the orderly marketing of milk and milk products, and the principal recommendations of this report will be in the direction of bringing about a better coordination of price controls with market relations and market forces in Pennsylvania.

This is the setting, then, in which milk controls operate in Pennsylvania. The dairy industry is large and important to the economic and social welfare of the Commonwealth. The various groups associated with it reflect an intricate system of economic interests and relationships. Regulations governing the industry must take account of the interstate flow of milk, and of legal limits on the power of the Commonwealth to regulate interstate commerce. They must take realistic account, also, of the underlying cost relations in milk production and distribution if they are to contribute to the industry's economic health and strength.

CONTROL OF PRODUCERS' PRICES

More than thirty years' experience has accumulated in Pennsylvania and other states, with the control of prices paid to farmers for their milk. On the basis of that experience, three conclusions can reasonably be drawn:

1. *Price control has stabilized the prices received by farmers for their milk*—it has prevented wide fluctuations in price due to temporary excesses of supply, or due to price wars.

2. *Price control has had only minor long-run effects upon the average prices received by farmers over significant periods of time.* Attempts to increase the prices for fluid milk in particular areas have simply had the effect of increasing the flow of milk into those areas, of pro-

ducing a temporary surplus of milk, and hence reducing, again, the blend price¹ received by farmers.

3. *Price control is fully effective only when it applies to substantially all milk shipped into a market area.*

Where the price controls established by the Pennsylvania Milk Control Commission have aimed at stabilizing rather than increasing the price, and where the Commission has had control over the bulk of the milk coming into the market, price regulation has been effective, and we judge it to have been beneficial. These conditions have not always been met, particularly in the Western portion of the State. During the period from about 1948 to 1964, the prices for Class I milk² were maintained in the Western tier of counties at levels that encouraged an increase in milk production and the importation of milk from outside the area. This caused a vicious cycle of higher prices and increased supplies that kept the milk supplies out of balance with the demand, raised the price of milk to consumers in the area, but failed to raise the average price received by farmers.³

Within the past year, the present Milk Control Commission has attempted to remedy the situation just described by reducing its Class I price in Marketing Area 2—Western Pennsylvania—and increasing the price of manufacturing milk in the same area. While it is generally agreed in the industry that this move has been sound, and that some further adjustment in the same direction is needed, the new policy does not deal with the second aspect of the problem—that Western Pennsylvania normally receives a substantial part of its milk supply from Ohio sources, and that an attempt to raise blend prices within the State places dealers who buy from Pennsylvania producers at a disadvantage.

¹See the Appendix for a definition of “blend price” and other terms used in the industry.

²That is, milk bottled and sold to consumers for fluid use—see the Appendix.

³How the Class I price could be raised repeatedly without increasing the price received by farmers is explained in detail in the Appendix. Briefly, the reason is that only milk used for fluid purposes obtains the Class I price. Farmers are paid for all additional milk at the much lower manufacturing milk prices—even if the milk meets the quality standards for fluid milk. Hence, as milk supplies increased, a smaller and smaller percentage of milk went into Class I uses, and the average, or blend, price was correspondingly reduced. On balance, the blend price received by farmers in Western Pennsylvania during the period under discussion was almost exactly the price that would have been predicted from the operation of economic market forces in the absence of State price control.

The situation in the rest of the Commonwealth has been quite different. The Federal Government regulates producers' prices in the New York-Northern New Jersey market order area, and in the Delaware Valley (Philadelphia, New Jersey, Delaware) market order area. Well over one-half of the milk produced in the Commonwealth comes under one or the other of these orders. Since the Federal order applies to all milk marketed in the area, regardless of its state of origin, interstate movement of milk creates few of the difficulties for Federal regulation that have plagued the Pennsylvania Milk Control Commission in its attempts to establish minimum prices for supplies in Western Pennsylvania.

We see that experience in Pennsylvania—further substantiated by the experience of milk markets in other parts of the country—bears out the three main conclusions stated earlier: that price control can stabilize prices, that it cannot raise prices significantly above the economic equilibrium levels, and that a state can achieve stabilization only for markets whose supplies lie almost entirely within the state. On the basis of this experience, we reach the following conclusions:

1. *The Pennsylvania Milk Control Commission is to be commended for its recent actions to bring fluid milk prices in Western Pennsylvania in line with economic market forces, and should be encouraged to move further in this direction until sound price relationships have been re-established, and to extend the same policy throughout the State.*

2. *The goal of stabilizing prices paid to milk producers in the interstate market of Western Pennsylvania requires State controls to be complemented by Federal action. Under Section 311 of the Pennsylvania Milk Control Law, the Commission has full authority to enter into an agreement with the Federal government for joint uniform milk control in a market area. We recommend that the Commission and the Attorney General of the Commonwealth explore vigorously with the U. S. Department of Agriculture effective methods for taking joint action to regulate milk prices paid to producers in Western Pennsylvania, and take steps to ascertain the preferences of producers in this region with respect to such regulation.*

Both of the above recommendations can be carried out without any statutory change in the Pennsylvania Milk Control Law. However, we believe that some of the past difficulties of producer price control, especially in Western Pennsylvania, stem from inappropriate interpretation over a period of years, of Section 801 of the Law, which defines the standards on which the Com-

mission shall base prices. That standard, while instructing the Commission to take into consideration "all conditions affecting the milk industry in each milk marketing area," mentions explicitly only costs of production and distribution, and does not make specific reference to the necessity of adjusting the supply of milk to the demand.

By their very nature, "cost of production" and "cost of distribution" are variable quantities, not susceptible to close determination. In any market, there will be low-cost producers and high-cost producers, low-cost distributors and high-cost distributors. Costs may depend on efficiency, scale of production, and many other factors. When markets respond to the forces of supply and demand, high-cost producers and distributors tend to be pushed out of the market. Conversely, if prices go up, new producers are attracted into the market, and these will generally be higher-cost producers than those already operating. No one supposes that markets actually operate as smoothly and accurately as the above account suggests, but nevertheless, "cost of production" itself depends very much on the price that is set, hence does not provide a clear standard for setting the price.

For this reason, we recommend that the second paragraph of Section 801 of the Pennsylvania Milk Control Law be amended to read as follows:⁴

The Commission shall base all prices upon all conditions affecting the milk industry in each milk marketing area, including the amount necessary to yield a reasonable return to the producer and the milk dealer or handler, and current and prospective supplies of fluid milk in relation to current and prospective demands for such fluid milk for all purposes.

This change would eliminate language from the present law that cannot receive any clear economic interpretation, and would add language similar to that in laws of California, Massachusetts, Vermont, New York, and Connecticut that would provide the Commission with an intelligible standard. This change is desirable, if for no other reason, because it would bring the explicit standard in the law closer to the one that the Commission, has, in fact, applied during most of its history, except for its unfortunate former experiments with high Class I prices in Western Pennsylvania.

⁴This proposed amendment relates primarily to producer prices. We shall propose later in this report a further amendment to the same Section as it applies to minimum wholesale and retail prices.

Two other matters relating to producer prices deserve attention, one of them calling for a change in the Milk Control Law. Under the present law, producer cooperatives organized prior to 1937 are under no obligation to return to their members payments equal to the prices prescribed by the Commission (less charges for operating expenses). No purpose appears to be served by this exemption, which does not extend to cooperatives organized since 1937. On the contrary, the exemption increases the difficulty that cooperative members and the Commission have in verifying that proper prices are being paid. *We recommend that Section 809 of the Milk Control Law be amended to remove this exemption.*

The large number of areas into which the Milk Control Commission has divided the State, and the practice of establishing each price on an ad hoc basis, requires a large number of price hearings of considerable length. It would be a convenience to all concerned to reduce the number and complexity of hearings and to make the price-determining procedure more systematic. To this end, *we recommend that the Commission seek means for decreasing the frequency of hearings by reducing the number of areas for which separate producer prices are established. We suggest that the Commission also consider the use of formula pricing, of the sort used in Federal price orders, that would automatically adjust prices to changing conditions.* This practice would reduce the frequency of price hearings and would have the further advantage, in all areas where there is a Federal marketing order, of making it easier to coordinate State prices with the Federal formula price for producer milk.

CONTROL OF WHOLESALE AND RETAIL PRICES

While nineteen states have laws authorizing the fixing of minimum producer prices, and producer prices are regulated in most of the remaining metropolitan areas by Federal market orders, only twelve states authorize the fixing of minimum wholesale and retail prices (in two of these states, prices may be fixed only in the event of an "emergency"), and the Federal price-fixing authority does not extend to wholesale or retail prices. From these facts it is clear that there is much less consensus in the United States about the desirability or necessity of fixing minimum wholesale and retail prices than there is about the fixing of prices paid to farmers.

In a private enterprise economy, where prices are generally left to the determination of free markets, the burden of proof rests on those who would set aside the market process in favor of government regulation. The

common case of government regulation of prices is in public utilities. Here, the technical necessity that the service—gas and electricity, for example, be provided by a single company eliminates the possibility of competition and creates a danger that monopoly prices will be charged. Hence, the government steps in to set *maximum* prices.

The case of milk price control is quite different. Here price control is directed against excessive competition rather than the absence of competition, and *minimum* prices are set rather than maximum prices. Hence, the case for milk price control must rest on quite different grounds from those used to justify government regulation of public utilities.

The arguments generally used to support the fixing of minimum wholesale and retail prices for milk are these: that producer prices cannot be stabilized unless resale prices are also stabilized, that there will be price wars in the absence of price control, that the result of price wars will be to drive smaller, but efficient, dealers out of business, and to concentrate the business in the hands of a few national dairies and chain food stores. When these have gained control of the market, it is argued, they will raise prices above the competitive level, so that in the long run even consumers will be harmed by the absence of price controls.

It is hard to find definite evidence either to prove or disprove these assertions in a clearcut manner. There is considerable evidence that price wars in fact occur fairly often in markets where the wholesale and retail price of milk is not controlled. Whether such price wars are more or less frequent, more or less severe, than in such industries as gasoline distribution is not known.

The effects that price wars have had on dealers of various kinds and operating on different scales is even harder to determine. All over the nation, and for at least the past twenty-five years, the number of dealers has been declining rapidly, and small dealers (say, those selling less than 2,000 quarts daily) have been disappearing more rapidly than large ones. However, this has been occurring both in states where there has been retail price control and in states where there has not. There is some indication that the shift has been more rapid in the group of states without retail price control, but no indication that milk distribution is now more highly concentrated in the hands of large dealers in the one group than in the other. In general, the reduction in numbers of small dealers in all markets has been associated with the shift from home delivery to store sales, and with economies of large-scale processing. (For further details, and supporting evidence, see Appendix.)

Even if it were granted that wholesale and retail price control may provide some protection to smaller dealers against price wars, such price control raises three other important sets of issues:

1. *Retail price control affects different parts of the industry quite differently, so that a price order that might seem "fair" to dealers having primarily a retail business and to driver-salesmen might seem quite "unfair" to dealers selling primarily through wholesale channels and to food stores, or vice versa.* Thus, the regulatory agency is subjected to buffeting from segments of the industry seeking treatment that would be advantageous to them.

2. In a similar way, *retail price control puts the regulatory agency in the position of weighing the respective claims of consumers, who would like lower-cost milk, and dealers, who would like wider profit margins.*

3. *Retail price control places on the regulatory agency a heavy responsibility for changing the price structure promptly to accommodate changes in the industry and to encourage new efficient methods of milk distribution that may be preferred by consumers to traditional methods.*

Retail versus Wholesale Distribution

Although there is no logical reason why this must be so, *the store differential*—the difference between the price of milk bought at the store and delivered to the home—*has generally been somewhat greater in free markets than in markets with price control.* Since the percentage of milk bought from stores is strongly affected by the differential, it has also been true that a much higher percentage of total fluid milk is sold through stores in unregulated markets than in markets with price control.

If it were a simple matter to calculate the cost differential between the two marketing channels, a regulatory agency could simply use this differential as a basis for establishing the store differential for minimum retail milk prices. We have already observed, however, that "the cost" of particular economic services is an elusive concept. For example, the unit cost, per quart equivalent, of home-delivered milk depends a good deal on the density of stops on milk routes and the quantity per stop. These factors, in turn, depend on what percentage of the milk is sold by home delivery. But this percentage, again, will change with a change in the store differential. Hence, in trying to base the store differential on the cost differential, the regulatory agency is faced with a circular chain of reasoning. One can only conjecture that the store differentials set by state milk control commissions represent some kind of compromise between the historical dif-

ferentials, which were rather narrow prior to the rise of modern food markets, and the differentials nowadays observed in unregulated markets in other states, with perhaps some conscious or unconscious allowance for the vigor with which competing claims are pressed by the interested groups.

The Dealer Margin

By "dealer margin" we mean here the difference, per quart, between the price the dealer pays the producer for Class I milk, and the price at which the milk is sold to the consumer. Obviously, the dealer margin varies with the size of the container, the mode of distribution, and sometimes other factors. *Comparison of dealer margins between states gives us some basis for judging whether State control of retail milk prices increases the price of milk to the consumer.*

The evidence is quite inconclusive. On the one hand, Professor Roland W. Bartlett of the University of Illinois has presented data to show that dealers' margins are, on the average, somewhat higher with than without retail price control, and that removal of the controls has led, in most cases, to decreases in the margins. The average difference between the controlled and uncontrolled markets in his tabulation is a little more than one cent per quart.⁵

On the other hand, Professor D. A. Clarke, Jr., of the University of California (Berkeley) concludes from the examination of other data:⁶ "that there is no significant evidence that price spreads for milk distribution are wider in markets with state control than in markets where resale prices are established without state price-control operations. In fact, the reverse seems to be true, although average differences are small relative to within-group price variation . . ."

The 1963 Report of the Pennsylvania Joint State Government Commission (p. 18) also failed to find, in the data it examined, any systematic difference in dealer margins between controlled and uncontrolled markets.

If price control does not significantly increase dealers' margins, the reason may be that legal minimum prices which depart very widely from those appropriate to the free market are simply unenforceable. The com-

⁵"Is State Control of Consumer Milk Prices in the Public Interest?" *Dairy Marketing Facts*, Cooperative Extension Service, University of Illinois, College of Agriculture, Department of Agricultural Economics. AE-3976 (January 1964)

⁶*Fluid Milk Price Control in California*. University of California, Division of Agricultural Sciences, Agricultural Experiment Station, Berkeley, California. June 1955, p. 137.

ment was frequently made to us that "unrealistic" control prices—that is, prices that did not conform reasonably closely to the underlying cost structure—were always followed by widespread violation and evasion. If so, this "leakiness" of the controls provides a strong counter force against a price control agency's yielding to pressures from particular economic interest groups.

One particular feature of the Pennsylvania Milk Control Law, as interpreted by the Commission, has created consumer concern and suspicion regarding dealer margins. Dealers submit data on their costs to the Commission, and the Commission bases its price decisions partly on these cost data. However, only summaries and averages of the costs are made public by the Commission, the cost data for individual dairy firms being kept confidential. As a result, *consumer representatives at price hearings have no basis for examining the accuracy and reasonableness of the cost figures that the Commission relies upon*, for they cannot go behind the averaged summaries to the original data. Under these circumstances, the findings of fact introduced by the Commission's staff become almost final and unchallengeable.

The use of the legal powers of the Commonwealth to fix and enforce minimum prices confers on the industry a benefit that is perhaps defensible, but is certainly unusual. It seems only proper that the industry, in return for this benefit, should be required to disclose the cost figures on which it bases its claims for price minima. This requirement is uniformly imposed on public utilities, where price control is established for the benefit of the general public rather than the industry. It would appear even more appropriate to impose the same requirement where price control is established primarily at the instance of the industry's firms. *Therefore, we recommend that the last sentence of Section 310 of the Pennsylvania Milk Control Law be amended to remove the existing privilege of confidentiality from records of dealers used, directly or as components of composite figures, at price hearings; and to permit a scrutiny of dealer reports submitted to the Commission in a manner similar to that now permitted in the normal public utility rate cases in the trucking industry.*

Another procedural matter has given rise to criticism. Under the present Law, if the Milk Control Commission changes a preliminary order after the hearing on that order but before the order is issued, no further hearing or conference is required. Under this procedure, interested parties have no opportunity to raise questions about terms of a final order that have been altered from those in the preliminary order. *We recommend, therefore, that the Milk Control Law be amended to provide*

that if the Commission changes a final order substantially from the provisions of the tentative order, a further hearing or conference should be scheduled, like the one held on the tentative order, before the new final order is promulgated.

Other Distribution Channels

We have seen that retail and wholesale price control places the Milk Commission in the position of adjudicating between those segments of the industry that distribute milk primarily through stores, and those that distribute it primarily by home delivery. Price control raises a number of other issues of a similar kind relating to: new methods of distribution, the price of milk for school lunch programs, sales by competitive bidding to public agencies, and the price of milk sold at the point of production or of pasteurization.

The Commission now establishes a special price for milk used in school lunch programs. If retail price control is retained, we believe that such sales should be exempt.

Federal institutions in Pennsylvania purchase their milk by competitive bidding, in accordance with the usual practices of public agencies. *Although the laws of the Commonwealth require most municipal and county agencies to use competitive bidding procedures, they have been unable to do so in purchasing milk because of the minimum prices fixed by the Milk Commission. We believe that the present procedure is contrary to sound governmental purchasing practice, and should be changed.*

Both of these changes can be accomplished by adding to Section 801 of the Milk Control Law the sentence: "The Commission shall not fix the prices for sales to governmental institutions and any licensee desiring to sell to such institutions shall be entitled to bid for the sale provided that his bid is not lower than the price he paid."

In its price orders the Milk Commission currently sets different prices for retail sales, wholesale sales (milk sold or delivered in bottles or other containers to stores, restaurants, etc., for resale), and bulk sales (milk sold in bulk to stores, restaurants, institutions, etc.). In addition, the Milk Control Law exempts from the Commission's orders "cash sales of milk, not exceeding two gallons to any one customer in any one day, at the farms of producers to consumers in containers owned and provided by the consumer." There is no other special provision in the Law, nor does the Commission at present in its price orders make such provision, for milk sold to customers at the point of production or pasteurization.

Producers who sell milk at the farm under the clause quoted above are commonly called "juggers," and we shall use that name here to designate them. The clause in question has caused some litigation, not all of which has yet been settled, because of the ambiguity of the phrases "at the farms of producers," and "containers owned and provided by the consumer."

The special treatment accorded by the law to juggers can be interpreted in two ways. Historically, its inclusion in the Milk Control Law undoubtedly derives from the widely accepted principle that a farmer should have the right to market his own produce, free from government licensing and controls, other than health regulations. It would be more realistic, however, to view jugging as a particular method of distributing milk. Many of the existing jugging producers operate fairly large farms, and many, although not all of them, had been distributors operating retail routes before they undertook jugging operations. As the retail routes of some of the smaller companies became unprofitable, jugging was seen as an attractive alternative method for marketing the milk. Juggers now handle about two per cent of the fluid milk sold in the State.

The jugging provision of Section 402, as it is now phrased, does not seem entirely appropriate to the character of modern jugging operations. Since most of the milk is pasteurized at the farm, and under State health laws pasteurized milk must be placed immediately in sealed, sterilized containers, the provision that containers must be "owned and provided by the consumer" is unwise. A case currently before the courts of the Commonwealth will determine whether the consumer can buy and provide the container at the moment when he buys the milk.

The legal problems surrounding jugging illustrate how resale and retail pricing throw the Commission into choosing between competing economic interests.⁷ It is to the advantage of juggers to have the jugging provisions of the law interpreted as liberally as possible; but other dealers would like to see them interpreted as narrowly as possible.

⁷As long as other wholesale and retail prices are controlled, if the juggler is able to find a retail market for almost all his milk, he has an advantage over other farmers whose blend price includes a substantial component of milk sold at the manufacturing milk price. Hence the juggler can afford to base his operations on an assumed milk cost lower than the Class I price, but higher than the competitor's blend price, and can afford to cut his prices by more than the amount of the distribution cost saving.

If the Commission is to be involved in such adjudication of interests, then its decisions should be based as far as possible on economic considerations. It should not penalize low-cost channels of distribution through failure to establish appropriate price differentials. When milk is sold at retail at the point where it is pasteurized and bottled, the producer or dealer incurs lower costs than if the milk has to be delivered to store or home. At the same time, the consumer, who has come to the plant to purchase the milk, receives a less complete service.

Much of the current ambiguity of the law with respect to such sales, and much of the pulling and tugging of conflicting interests, could be resolved if the Commission established a separate category of retail sales at the milk processing plant, and an equitable price differential, corresponding to the distribution cost differential, for such sales. The price differential should reflect, among other factors, the difference in rental value of rural and urban store sites. We recommend that such a category of sales, and such a price differential, be established. The Commission could do this under the present Law, without amendment; and the present exemption clause of Section 402 could be retained to cover small-scale farm sales of the traditional kind.

The same principle applies to other methods of distribution that alter costs. *We recommend that the Commission take the initiative in studying industry costs and in considering and introducing price differentials, in order to take advantage of new distribution methods and efficiencies made possible by technological change in the industry.*

Conclusion: Wholesale and Retail Price Control

Our recommendations regarding wholesale and retail price control have been based on the assumption that some such controls will be retained in the Pennsylvania Milk Control Law. In other states where the desirability of imposing such controls has been debated in recent years, many considerations have been advanced on both sides of the issue. We believe that government should interfere with the operation of markets only when it is clear that there are serious deficiencies in the operation of the unregulated markets, and clear also that the interference will operate in the public interest.

We are not prepared to conclude that wholesale and retail markets for milk will operate entirely satisfactorily in the complete absence of controls, particularly in view of the fact that producer prices are regulated. The very fact that in unregulated states periodic price wars lead to frequent proposals of public controls indicates that the

unregulated markets do not always perform adequately. We believe, however, that some steps could be taken in Pennsylvania to moderate the degree of governmental control of wholesale and retail milk prices without creating a danger of price wars or unfair competition. Specifically, we make the following two recommendations for amendments to the wholesale and retail pricing provisions of the Law:

1. *The first sentence of Section 802 of the Milk Control Law should be made permissive, instead of mandatory, by amending it to read as follows: "The Commission may fix, by official order (except as hereinafter provided in this section), the minimum wholesale and retail prices, and, by official order, the maximum wholesale and retail prices,"* This change will permit the Commission to determine by actual test whether partial or total removal of wholesale and retail price controls will have the harmful effects that are feared, and to restore price controls to the extent that experience proves necessary.

2. The standard established in the Law as a basis for setting minimum wholesale and retail prices should be amended so as to reflect clearly the intent that these are *minimum* prices, which any dealer may exceed if he wishes, and that they are fixed by law only for the purpose of preventing unfair competition and ruinous price wars. It is neither necessary nor desirable that minimum prices established for this purpose be high enough to *guarantee* normal profits for all, or even most, dealers. To this end, we recommend that the second paragraph of Section 801 of the Pennsylvania Milk Control Law be amended to read as follows:

The Commission shall base all producer prices and maximum wholesale and retail prices upon all conditions affecting the milk industry in each milk marketing area, including the amount necessary to yield a reasonable return to the producer, and current and prospective supplies of fluid milk in relation to current and prospective demands for such fluid milk for all purposes. Whenever it exercises its power to set minimum wholesale and retail prices, the Commission shall set these prices at levels no higher than is reasonably necessary in order to prevent harmful instability in wholesale and retail markets and to prevent unfair trade practices.

ORGANIZATION AND ADMINISTRATION OF THE MILK CONTROL COMMISSION

The third major topic relating to milk price regulation, along with producer price control and wholesale

and retail price control, is the organization and administration of the Milk Control Commission itself. As an examination of the laws of other states shows, there are many possible variants on the particular pattern of organization laid down by the Pennsylvania Law. In some states, a single administrator has responsibility for milk control, and the board or commission is only advisory. In some states it is required that particular economic interests be represented on the commission or board. In some states, milk control is administered by, or under the general direction of, the Department of Agriculture. In some states, the milk control agency is financed entirely from the general fund, while license fees and fines are paid directly into the general fund.

Each of these arrangements has characteristic advantages and disadvantages. In no case does the balance of advantages over disadvantages appear decisive, nor are the problems and difficulties confronting the Pennsylvania Milk Control Commission of a kind that would be remedied by amending the organizational provisions in the Milk Control Law. For these reasons, *we have no recommendations for statutory changes in the organization of milk control.* However, we should like to call attention to some actions that could be taken, without new legislative authorization, by the Governor and the Milk Commission to improve and strengthen the administration of the law.

The proper role of the Commission is not simply that of a judicial agency, hearing testimony of parties desiring changes in its orders. It is responsible for using its powers to ensure that the milk industry in Pennsylvania will operate in an efficient and economically healthy manner, and that the controls will respond promptly to changes in the technology and economic conditions of the industry. To accomplish this goal, the Commission must take greater initiative in investigating the economic conditions in the industry and the changes that may be desirable, and must take greater initiative in proposing changes.

We wish to commend the Milk Control Commission for several steps that have been taken in the past year to effect organizational and administrative improvements. Without trying to distinguish steps toward improvement that are already under way from new recommendations, the following lines of development and improvement in operation appear to us important:

1. It is of the highest importance that the Commission be staffed throughout with competent technical personnel. Inclusion of the personnel of the Commission under civil service was a step forward, as was appointment of a professional milk economist as secretary and

Summary of Recommendations

The full report of the public members of the Governor's Milk Control Inquiry Committee contains six recommendations for changes in the Law, and seven recommendations for improvements in administration.

The proposed Legislative changes would:

1. Require the Commission, in setting producer prices, to take into consideration the balance between supply and demand for milk.
2. Require all cooperatives to return to their members the full legal price for milk sold, less legitimate expenses.
3. Open dealers' financial records to scrutiny in connection with price hearings.
4. Require a public conference before the Commission promulgates a final price order if the tentative order has been substantially changed after the previous hearing or conference.
5. Allow purchase of milk by governmental institutions under competitive bidding.
6. Make wholesale and retail price control permissive, rather than mandatory; and permit only minimum "floors" to stabilize these prices.

The administrative recommendations call on the Milk Commission and Commonwealth to:

1. Cooperate with the U. S. Department of Agriculture to establish joint Federal-State regulation of producer prices in Western Pennsylvania.
2. Consolidate areas for price-setting, and consider formula pricing, in order to reduce the frequency of price hearings, and coordinate with Federal price orders.
3. Take initiative to introduce cost-based price differentials for new efficient marketing methods.
4. Take greater initiative in investigating economic conditions in the industry and proposing desirable changes.
5. Continue to strengthen the technical competence of Commission personnel, adopt a system of uniform accounts for milk dealers, and provide more adequate public information and better statistical reports.
6. Employ in the Milk Commission a legally trained, full-time Chief Enforcement Officer, in addition to legal assistance from the Attorney General's office.
7. Provide a larger budget for the Milk Commission, to permit salaries that will attract well-qualified personnel.

chief administrative officer. The reclassification study now under way, with the Office of Administration will, if carried out properly, assign job classifications and salaries to the positions in the Commission's staff that will facilitate appointing technically qualified people to these positions and retaining them.

2. The plan already under way to develop and adopt a more adequate and thorough system of uniform accounts and reporting forms for milk dealers should be carried forward vigorously.

3. In the past, the Commission has published too little statistical and economic information to inform the public adequately about the facts of milk industry economics. Even the statistical evidence introduced into price hearings has been poorly put together and poorly presented. We recommend strongly that the Commission undertake a more vigorous program of public information, and that it do a better job of compiling and presenting its statistical reports. In publishing data, the confidentiality of dealers' records should be respected, except for disclosures required, as previously recommended, in connection with price setting.

4. For effective enforcement of the law, the present arrangement for legal assistance to the Commission from the office of the Attorney General does not appear entirely adequate. We believe that a better arrangement would be to permit the Commission to employ a full-time attorney as Chief Enforcement Officer, reporting directly to the Secretary of the Commission. The Chief Enforcement Officer would direct all regular enforcement activities, but would be able to obtain additional assistance from the Attorney General's office for the preparation and trial of court cases.

5. We are doubtful whether the present budget of the Milk Commission is adequate for a thorough job of

price setting and enforcement—particularly if the present wholesale and retail price-setting powers are retained. It would be impossible without powers of subpoena—and perhaps even with them—to determine the actual extent and frequency of violations of the Commission's orders. It is generally believed that violations are rather widespread. Budget increases should be used primarily to improve the quality of the Commission's staff, through higher qualifications, rather than mere numbers of employees.

The level of violations may be interpreted in two quite different ways. It may be interpreted to mean that the Commission does not have sufficient, or adequately trained, staff to enforce the Milk Control Law properly. On the other hand, widespread violation or evasion of the Commission's orders may be a danger signal indicating that those orders are impractical.

We have emphasized throughout this report that State milk price control is a supplement to, rather than a replacement of, the regular market mechanisms on which the private enterprise system rests. State price control may work successfully if it is sensitive to market forces and does not attempt to maintain a situation that is far removed from the free market conditions. Whenever it becomes insensitive in this respect, and attempts to establish economically unrealistic prices, important business interests in the industry—whether producers, dealers or stores—will then have a strong economic incentive to avoid or evade the regulations. Thus, while the price orders should be enforced vigorously and impartially, care must be taken that they are enforceable—and evidences of violation may be taken as indications of the need for changes in the orders as well as signs of the need for better enforcement.

Appendix

ECONOMICS OF MILK PRODUCTION AND DISTRIBUTION IN PENNSYLVANIA

Note: Composition of Milk Prices

Prices of bulk milk are generally quoted in dollars per hundred pounds (cwt) of specified butterfat content; prices of packaged milk in cents per quart. For raw milk purchased from farmers the usual butterfat standard is 3.5%, and the price will vary perhaps 7 cents for each .1% above or below this standard. Thus, if 3.5% butterfat milk is priced at \$5.10 per cwt, the price of 4.0% butterfat milk would be \$5.45, for $\$5.10 + (\$.07 \times 5) = \$5.45$. Since "a pint's a pound the world around," one cwt of milk is approximately 100 pints—more exactly, about 46.5 quarts, without allowing for losses in processing. To calculate cents per quart from dollars per cwt multiply by 2.15. Thus \$5.10 per cwt would correspond to 11 cents per quart ($\$5.10 \times 2.15 = 10.96$ cents).

Suppose that a dairy buys Class I milk at \$5.25 per cwt, and sells it to retail stores at 89 cents a gallon, while the retail store sells it to consumers at 94 cents a gallon. Then, the cost to the dairy would be $5.25 \times 2.15 = 11.29$ cents per quart, the revenue is $89/4 = 22.25$ cents per quart, giving a spread of $22.25 - 11.29 = 11.0$ cents per quart. Similarly, the store's spread is $94 - 89 = 5$ cents per gallon. Thus, under these assumptions, of the total retail price of 23.5 cents per quart, 11.3 cents go to the producer, 11.0 cents per quart to the dairy, and 1.25 cents per quart to the retail store.

Each one per cent profit on sales by dairies corresponds to approximately 1/4 cent per quart. A change of \$1 per cwt in the Class I price of milk corresponds to a change of a little more than 2 cents per quart in the retail price. For a family that consumes an average of about one-half gallon of milk per day, or about 750 quarts per year, a change of one cent per quart in the retail price corresponds to a change of \$7.50 per year in the family's total cost of milk.

A dairy farmer with a herd of 30 milking cows (somewhat above average for the State), producing 10,000 pounds of milk each (also a little above average), would sell 300,000 pounds of milk a year. A

change of 50 cents per cwt (about one cent a quart) in the blend price will change his total receipts about \$1,500 per year.

PRODUCER PRICES

The possibilities and effects of State control of prices paid to producers for milk are strongly influenced by the operation of national markets for milk and milk products. Milk products such as butter, cheese, and powdered milk can be shipped from one part of the country to another at a very small cost, therefore the cost of raw materials must be very nearly the same at all places where they are manufactured. State or Federal price control cannot raise the price in any one area significantly above this competitive price. Moreover, the price must be kept low enough so that all milk produced in the area that cannot be marketed as fluid milk can be sold for manufacturing purposes.

The Price Structure

The cost of transporting fluid milk (and, to a lesser extent, ice cream and cottage cheese) is higher than the cost of transporting milk products—at present approximately 15 cents per hundredweight per 100 miles. In any area that produces no more milk than is required for the fluid milk market (with, perhaps, a small excess to take care of fluctuations in production and sales), the price paid for fluid milk can exceed the manufacturing milk price by (a) the additional cost to meet health standards for fluid milk, plus (b) the transportation cost from areas with surplus milk production. Thus, in Western Pennsylvania, 700 to 800 miles from the center of milk production in Wisconsin and Minnesota, fluid milk can command a price approximately \$1.00 to \$1.20 a hundredweight (15 cents per 100 miles, times 7 or 8) higher than the price for manufacturing milk.¹ If the price is

¹Since surplus milk is available in Ohio and Indiana, much closer than 800 miles, the economic premium calculated here for fluid milk may be higher than the market would maintain in equilibrium.

significantly above this level, there will be a strong tendency for milk to be transported into the area, thus reducing the price. A higher price may also bring about an increase in milk production in the area, causing a higher percentage of milk to be sold as surplus for manufacturing purposes, thus reducing the price again.

The history of prices paid to producers for milk in Pennsylvania over the past 30 years strongly supports these conclusions: that with or without price controls, the prices paid to producers cannot depart very far from the prices determined by market forces. At most, price control can stabilize prices and prevent their reduction drastically below equilibrium levels. A classified system is used in Pennsylvania, as elsewhere, to determine prices paid to producers for their milk. In its simplest form, the classified system sets one price for milk that goes into fluid uses (Class I) and another price for manufacturing milk (Class II). The price of Class II milk is always set competitively with national prices for milk for similar uses, so that all milk produced can be disposed of. The price of Class I milk is set substantially higher. The price to the farmer (blend price) is the average of the Class I and Class II prices, weighted by the percentage of milk going into the two classes of uses. Thus, if the Class I price is \$5.00 per hundredweight, the Class II price \$3.00 per hundredweight, and if 75% of the milk is absorbed in Class I uses, the blend price will be \$4.50, computed as follows:

<i>Class</i>	<i>Price</i>	<i>Per cent</i>		
I	\$5.00	× 75%	=	\$3.75
II	3.00	× 25%	=	.75
				\$4.50
Blend				

If the Class I price is fixed at a level that raises the blend price above the competitive level—approximately the Midwest price plus the transportation differential—two mechanisms operate to bring the blend price back down to that level:

1. Milk is imported into the area from outside.
2. The production of milk within the area increases.

When the supply of milk increases from either of these causes, the blend ratio (the percentage of the total milk sold for Class I prices) declines, for the additional milk cannot be sold in the fluid market, but must be sold for manufacturing purposes. The decrease in the blend ratio causes the blend price, which is the price paid to the producer, to decline, thus restoring it pretty nearly to its original level.

Examination of the blend prices for Midwestern and Eastern states for the past thirty years shows that this is exactly what happens—the blend prices stay at levels determined by the transportation costs. When the Class I price is raised excessively in any area, as happened in Western Pennsylvania in the period from about 1946 to 1964, the supply of milk to the area simply increases, and the producers experience only a temporary, if any, increase in their blend price.

An increase in the producers' blend price above the competitive level could be maintained in an area only if there were some legal way to limit importations of milk into the area. The Commerce Clause of the U. S. Constitution makes it virtually impossible, even if it were desirable, for a State agency to restrict the movement of milk into an area, or to control the price at which out-of-state milk is acquired for importation into the area.

Over the years it has become more and more practicable, both technically and economically, to transport fresh milk over long distances by truck. With this development, it is no longer necessary to obtain the entire fresh milk supply of a city from the area immediately surrounding it. Thus with each passing year it becomes more difficult for a government agency, regulating prices in a single area, to establish and maintain blend prices for producers that are out of line with the natural geographically-determined pattern.

Producer Costs

Economists argue that when prices are left to the forces of supply and demand, the supply of a commodity will be determined, in the long run, by the cost of producing it. If the price is high, producers will find it profitable to increase their production and new producers will enter the industry, thus forcing the price down. If the price is low, producers will reduce their production as unprofitable, and the smaller total supply brought to market will cause a rise in prices. At equilibrium, the price will be just high enough to keep the least profitable producers—the “marginal” producers—in business, the other producers will have higher profits. If prices rise, present producers will experience increased profits, and new “marginal” producers will enter the industry. If prices fall, some producers will leave, and profits of all will be reduced.

The real world does not operate as smoothly as this account sounds. Markets may remain unbalanced over long periods of years. In particular, if any industry experiences a continued rapid technological advance in its production processes, while demand for its products does not expand accordingly, prices will be depressed

more or less continuously, and although producers leave the industry, many of those remaining will continue to find their operations unprofitable. Producers who remain may increase their production to spread the costs of facilities (e.g., bulk tanks) required by the new technology, or to use fully their land and equipment.

This, of course, is the heart of the American farm problem, a problem which, because of the steady and truly remarkable increases in productivity of our farms, has been with us for most of the Twentieth Century. It is the heart, in particular, of the milk price problem. Although the number of dairy farms continues to decrease steadily, and the number of dairy cows also, but more slowly, total milk production rises as the result of a rapid increase in milk production per cow.

Under the circumstances described, it is not clear that there is *any* policy a State Milk Commission could follow which would establish milk prices that would "yield a reasonable return to the producer, which return shall not be less than the cost of production and a reasonable profit to the producer . . ." During the entire history of milk control, substantial numbers of producers have found their operations unprofitable, and many of them have withdrawn from the industry. Other producers, though operating at a loss, find a continuation of milk production the least bad economic alternative open to them—even though it does not cover all fixed costs and provide a return on capital, it provides a source of cash income. At the same prices, still other producers operating on a larger scale and perhaps with more modern and efficient methods, have found milk production a profitable enterprise.

Several pieces of evidence support the conclusion that it is impossible to generalize about the profitability or unprofitability of dairy farming in Pennsylvania. First, in its Findings of Fact supporting its July 23, 1964, Order for the Pittsburgh Milk Marketing Area, the Commission estimated the cost of producing milk in that area (excluding a special drought-period adjustment) at \$5.25 per hundredweight. For reasons already given, this figure can, of course, only be understood as some kind of average, with some producers having much higher, others much lower costs. At the same time, the Commission was only able to establish a schedule of prices for this area that could be expected to yield a blend price to producers of \$4.00 to \$4.25 per hundredweight.

On the other side of the picture, although the blend price has apparently remained at an "unprofitable" level for a number of years, when compared with average production cost figures, milk production in this area has risen more rapidly than in the United States as a whole,

and farm land prices have continued to increase. As a matter of fact, Western Pennsylvania has become a significant surplus-producing area, about half of whose milk goes into manufacturing uses. (However, milk production has increased less rapidly in Western Pennsylvania than in the remainder of the State.)

The seeming contradiction in these trends is resolved when we keep in mind that cost figures are only averages, that they include many non-cash items for labor, and depreciation of buildings and equipment for which there are few profitable alternative uses, and that they do not reflect the profitability of any individual dairy farm. Dairying has been a profitable business for some, highly unprofitable for others, and no policy followed by the Milk Commission could have altered, essentially, those facts.

Interstate Problems

It has already been pointed out that the possibility of shipping fluid milk over long distances makes the task of State regulation of producer prices increasingly difficult. This difficulty is particularly acute in the Western part of the State, adjacent to Ohio. Portions of Eastern Ohio have traditionally been an integral part of the Pittsburgh milkshed, and a major producers' cooperative in that area, the Dairyman's Cooperative Sales Association, has members in both states. A significant fraction (perhaps one-fifth) of the Pittsburgh fluid milk supply comes from Ohio, and this fraction tends to increase when Class I prices are raised in relation to the prices received by producers in Ohio.

In the Eastern half of the State, there are also heavy interstate flows into the Philadelphia and New York metropolitan areas. More than one-third of the milk produced in Pennsylvania is exported. In these areas, however, prices to producers are regulated by Federal marketing orders that control milk crossing state boundaries. Although the Federal orders do not—and, under the terms of the Federal laws, cannot—prevent fluid milk from being imported into the market area, they can subject that milk to the same price regulations as milk that originates within the marketing area. If prices are set too high under the Federal order, the same problem of surplus supply and reduced blend ratio are likely to arise as under State price regulation. However, the Federal regulations avoid the problem of distributors turning to outside lower-priced sources of supply in preference to the area producers.

Economics of large-scale processing are making it profitable, apparently, to package milk for the retail market at primary processing plants located far from those

markets. It is reported that one large national firm is currently constructing a pasteurizing and packaging plant in Southern Michigan that will buy milk in the surrounding area and package it for shipment to retail distributors in three states. This development, if it proves profitable, will create the same difficulties in controlling the wholesale and retail prices of milk, against importations from other states, that are experienced in controlling bulk prices at present.

WHOLESALE AND RETAIL PRICES

The State Milk Control Law instructs the Commission to set prices in such a way as to provide a "reasonable return to the milk dealer." In several respects, this instruction is easier to interpret than the corresponding instruction relating to producers' prices. Since the Commission controls, by its orders, both the minimum price paid *by* dealers and the minimum price paid *to* dealers (by stores and retail customers), its task is "simply" to determine the proper spread between these two prices, and add this amount to the producers' price to determine the consumers' prices. Three kinds of problems have to be solved to compute the spread: (1) the costs of "average or normally efficient . . . dealers" must be determined; (2) a standard must be set for "reasonable profits"; and (3) appropriate differentials must be established for home delivery versus store prices, sales in different quantities and volumes, and different kinds and qualities of milk.

Comparisons of distribution costs are usually made in terms of the spread or margin between the price the dealer pays for Class I milk and the retail price of milk at the store or delivered to the home. In calculating the price dealers pay for milk in Pennsylvania, it is important to take into account milk that is bought outside the State at prices below those set by the Pennsylvania Milk Control Commission. Especially in Western Pennsylvania, where out-of-state milk constitutes a substantial fraction of the supply, failure to take this into account would underestimate the dealers' spread significantly.

Similarly, milk purchased in Pennsylvania for shipment to other states is generally purchased at the price prevailing in the market of destination. This price, rather than the Pennsylvania Class I price, must be used to calculate the dealers' spreads in these cases.

Dealer Costs

The same comment may be made about the costs of processing and distributing milk as were made earlier about production costs: there is no such thing as "the cost" of a dairy operation — even for a particular operat-

ing pattern. Costs vary from one dairy to another, and from one level of volume to another. If the spread between producers' prices and retail prices is very large, profits will rise, firms will expand, and new entrants may be attracted into the market who could not operate profitably there at lower prices. As a result, "average" costs will rise, and average profits will tend to decline. If the spread is very small, the highest cost dairies may be forced out of business or may withdraw, average costs will fall, and average profits will rise again. No matter what spread is established, high or low, if we examine the industry after it has had time to adjust, we will probably find some unprofitable firms, some making "reasonable" profits, and some making more or less large profits.

Because of these adjustments, the standard the law provides to the Commission is far less definite than appears at first sight. As the technology of the dairy industry changes—in ways similar to the technological changes in most other American industries—there tend to be increasing cost advantages for large-scale operations. In virtually all milk marketing areas, the total number of dairies is gradually decreasing as those with the highest costs find it impossible to compete. This is occurring both in markets where retail milk prices are controlled and those where they are not (see below). Under these conditions, it becomes extremely difficult to determine, with any precision, at what cost a "normally efficient" dealer can process and distribute milk.

Dealer Margins

A recent study has been made by Professor R. W. Bartlett, agricultural economist at the University of Illinois, of distributors' gross margins in 151 markets in 1962. "Distributors' gross margin" is defined as the difference between the *lowest* reported retail store price of milk and the Class I price paid to producers. (The author says: "While it would have been desirable to use the average price at which milk is sold in each market, this price is not available for most markets . . . test calculations indicated that the use of store prices . . . would not have given results significantly different from those based on the average price" in a special study of the New York City market.) The lowest gross margin among these 151 markets was 4.5 cents, the highest, 15.1 cents. The median (equal numbers of markets above and below) was 11.4 cents. One-half the markets lay between 9.6 and 12.6 cents.

The average gross margin in the 37 markets having retail prices controls was 12.2 cents a quart; in the 114 uncontrolled markets, 10.5 cents a quart, a difference of slightly more than 1.5 cents. These margins are for sales

through stores in gallon or half-gallon containers. The margins for home-delivery sales would, of course, be somewhat larger.

By way of comparison, for milk purchased by dealers at Pennsylvania Milk Control Commission Class I prices, the present gross margin in the Pittsburgh marketing area is $23.5 - 11.6 = 11.9$ cents per quart. It must be remembered, however, that much of the milk distributed in Pittsburgh is purchased below the Pennsylvania Class I price, so that the average gross margin may be as much as one cent a quart higher than the figure quoted above.²

In a study made in 1954 by Professor D. A. Clarke, Jr., of the University of California at Berkeley, the margins in controlled markets appeared, if anything, smaller than in uncontrolled markets. The retail margin in 33 controlled markets averaged 10.7 cents per quart, in 67 uncontrolled markets, 11.3 cents per quart; the wholesale plus store margin averaged 10.3 cents per quart in the controlled markets, but 11.0 cents per quart in the uncontrolled markets. These margins, however, are based on prices of milk sold in quart containers. The average store differential, between the single-quart home-delivered price and the lowest multiple-unit store price averaged 1.3 cents per quart for the uncontrolled markets, but only .5 cents per quart for the controlled markets, more than offsetting the difference in average margins for quarts.³ This finding is consistent with the general observation that store differentials are smaller where prices are controlled.

Similarly inconclusive differences are found in an analysis of data from *Fluid Milk and Cream Report*, May 1963. In 75 Federally controlled markets (no retail price control), the average retail spread for quarts was 14.2 to 15.2 cents; in 19 uncontrolled markets, 13.2 to 13.6 cents; and in 33 markets with State price control, 12.7 to 13.5 cents. For gallon containers, the corresponding figures were: Federal control, 47 markets, 9.1 to 9.6 cents; uncontrolled, 11 markets, 9.3 to 9.9 cents; State control, 16 markets, 11.0 to 11.3 cents.

²In *Farm Economics*, August, 1964, Professor C. W. Pierce has estimated that one-third to one-half of the Pittsburgh supply is purchased at prices averaging one-fifth below the Class I price. Hence, the average cost to dealers there can be estimated at about ten per cent, or one cent per quart, below the Class I price.

³*Fluid Milk Price Control in California, a Report to the Joint Legislative Committee on Agriculture and Livestock Problems*, 1955. Table 21, page 137.

There are wide differences in dealers' margins from one market to another that are concealed in these average figures, but it appears that such differences bear slight, if any, relation to whether retail prices in the market are controlled or uncontrolled. The data from which these averages were computed show, in general, a wider range of margins in the uncontrolled than in the controlled markets, which is what we would expect if the former were subject to occasional price wars.

Dairy Profits

Profits earned by dairies are ascertained by the Pennsylvania Milk Commission from financial statements submitted to the Commission. Unlike the situation in industries that are regulated as public utilities, the Pennsylvania Milk Control Law, as interpreted by the Commission, does not permit public disclosure of these financial statements. Hence, the only available data on current profits are certain average data computed by the Commission. In its findings in support of General Order No. A-639 for the Pittsburgh area, the Commission estimated that dealers would receive an average return on net worth of 10.03%, and a return on employed capital of 8.78%. This may be compared with the estimate by the First National City Bank, in its monthly economic letter for April 1963, that the average return on net assets, after taxes, of some 3,800 leading corporations in 1962 was 9.1%.

Price Differentials

When different but related products compete in free markets, the long-run price differentials tend to be equal to the long-run cost differentials in offering the products. Thus, the difference between the cost of milk in gallon and in quart containers, respectively, could be expected to approximate the difference in cost of packaging and distributing milk in these two forms. Similarly, the difference in price between milk at the store and delivered at the home would reflect the difference in cost of providing these two services.

Again, the facts are more complicated. First, when two products are jointly produced (for example, skim milk and butter), it is difficult to assign separate costs to components. Second, the amount of service provided may vary; for example, whether wholesale deliveries to stores are made to the receiving dock, or whether the driver places the milk on the store shelves. Third, the price of a service or product may depend on the volume of sales. Thus, the cost of delivery of milk will depend on the distance traveled per delivery and the quantity sold per delivery. These quantities, in turn, may vary with the

percentage of all milk which is sold by home delivery, as compared with store sales. Determination of the store's margin for milk is also a problem in joint costs, because the cost to the store depends on what part of the total store fixed expenses are charged against milk, and different methods of allocation will give different answers.

In the face of these complications, it is virtually impossible to conclude whether the present price differentials in Pennsylvania reflect properly the differentials in cost. One generalization is possible: that the spread in price between milk sold by home delivery in quart containers and milk sold in stores in gallon or half-gallon containers tends to be significantly wider, on the average, in markets where prices are not controlled than in markets, like those in Pennsylvania, where prices are controlled. The 1963 report of the Joint State Government Commission found that "in the states without retail price control, 57 per cent of the localities shown had a larger maximum volume discount . . . than any of the Pennsylvania localities other than Philadelphia and Pittsburgh."

Price and Milk Consumption

In general, the quantity of a commodity purchased can be expected to increase if the price declines. If the percentage change in demand is greater than the percentage change in price, the demand is called *elastic*; if a given change in price causes a smaller percentage change in demand, the demand is called *inelastic*.

The demand for milk is inelastic. A one per cent decrease in price probably will not increase milk consumption by more than about one-third of one per cent, and the actual change may actually be much less than this. If the price of milk goes down, consumers may buy a *little* more milk, but not enough more to compensate the farmer for the lower price.⁴ Arguments that reducing the price of milk will greatly increase consumption are not borne out by any evidence that has come to the attention of this Committee.

The conclusion should not be drawn that consumers are unaware of milk prices, or that they will be unresponsive to differences in the cost of obtaining milk through different channels. On the contrary, the relative

share of total sales represented by home delivery and store sales, respectively, is quite sensitive to the differentials between home delivery and store prices. Perhaps the most important impact of wholesale and retail price control is its effect on buying habits through control of the store differential. Consumers also change the sizes of the containers they use when the relative prices of milk in different containers are altered.

In Connecticut, for example, the percentage of the household milk supply delivered to the home decreased from 68% to 53% in the three-year period from 1960 to 1963, in 1963, 28% of the home-delivered milk, but only 10% of milk sold in stores, was sold in quart containers. During this same period, the total daily household consumption of fluid milk remained constant at .97 pints per capita. The total amount of milk that consumers will buy is relatively unaffected by price, *where* and *how* they will buy it is greatly affected.

Distribution Methods and Prices

It is possible to compare Pennsylvania markets and certain markets without resale price control with respect to sales methods and price margins. The non-Pennsylvania markets are those for which the Milk Marketing Order Division, Agricultural Marketing Service of the United States Department of Agriculture was able to obtain complete sales data by product, type of container and sales method for the month of November 1962. These data are published in *Packaged Fluid Milk Sales in Federal Milk Order Markets*. Resale price data were available for cities within 26 of these markets, in the USDA's *Fluid Milk and Cream Report*. The markets for which prices were reported are not necessarily coterminous with the sales areas of the Federal order markets and in some instances are considerably smaller. Pennsylvania sales figures are from *Characteristics of Fluid Milk Sales in Pennsylvania*, A. E. & R. S. #48.

Wholesale vs. Retail Sales. A strikingly larger share of milk sales were made on retail routes in Pennsylvania than in the 29 Federal order markets: 48.1 per cent and 26.3 per cent, respectively.

Glass vs. Paper. Single service containers have more nearly replaced glass in the 29 uncontrolled markets than in Pennsylvania: 69.0 per cent paper containers in the uncontrolled markets, 56.2 per cent in Pennsylvania.

Container Size. The quart container has continued to be the predominant size in Pennsylvania markets. The half-gallon accounts for nearly two-thirds of the sale in the 29 markets. Twin packs in Pennsylvania markets have been included in the category to which the actual container sizes correspond.

⁴It is extremely difficult to make accurate estimates of demand elasticities, because numerous other factors that affect consumption don't hold still while the measurements are being taken. The estimated elasticity of about one-third, mentioned here, is widely quoted among milk economists, and probably represents an upper limit of reasonable estimates.

	<i>Per cent of total sales in:</i>		
	Qts.	Half Gals.	Gals.
Pennsylvania, October 1963	58.4	39.0	2.6
29 markets, November 1962	20.3	63.8	15.9

The following comparison includes twin packs of quarts as half gallons and twin packs of half gallons as gallons:

	<i>Per cent of total sales in:</i>		
	Qts.	Half Gals.	Gals.
Pennsylvania, October 1963	50.7	36.9	12.4
29 markets, November 1962	20.3	63.8	15.9

Whole Milk and Skim Milk Products. Sales of skim milk products were relatively less in Pennsylvania than in the 29 uncontrolled markets. The difference, however, was not great—6.7 per cent and 9.9 per cent, respectively.

ENFORCEMENT

For rather obvious reasons, no quantitative data are available that would show to what extent the prices at which milk is bought and sold in Pennsylvania are consistent with the price orders issued by the Milk Commission. There are persistent reports of widespread violations, but these reports can only be verified in cases where the Commission has prosecuted offenders.

Violations and legal evasions can take a wide variety of forms. Since quantities of milk purchased from producers and the butterfat content of the milk are determined by dealers, there are some possibilities for evasion of price regulations by inaccurate recording of quantity of butterfat. Many farmers, in private conversations, will express doubts of the accuracy of measurements, but the Commission does not make enough audits or spot checks to allow these doubts to be evaluated. The evidence available to the Committee does not make it appear that this particular problem is a major one, and in any event, the governmental responsibility for assuring honest weights and measures remains, with or without price control.

More serious problems, at the producer level, arise from the various alternatives open to dealers for avoiding, by legal means, the effect of the price regulations. We have already stressed that the Commission cannot control the price at which a dealer buys from out-of-state sources. But milk *sold* out of state may also be credited to the producers at an abnormally low price. With the numerous interstate shipments that take place, there is often considerable leeway as to the prices at which milk from particular sources is accounted for.

At the level of the final consumer, there are a number of possibilities of legal, or illegal, evasion. There

have been numerous instances, most recently in the Pittsburgh area, of price wars conducted by making illegal offers to home-delivery customers to sell milk below the Commission prices. Some instances of similar violations by stores have been reported, but it is more difficult for the violation to be carried out clandestinely than in the other case. A store, of course, that had access to a supply of milk at prices below those fixed by the Commission could pass on part or all of its savings to customers by reducing the prices of foods other than milk that are not controlled.

The level at which rumors of violations are most common, and hardest to evaluate, is in transactions between dealers, and between dealers and retail stores. In fact, there appear to be many ways in which a dealer can reduce the effective cost of milk to stores, sometimes without actually violating the Commission's orders. The most obvious stems from the fact that dealers sell to stores dairy products other than milk whose wholesale and retail prices are not controlled under the law. By reducing, for example, its ice cream prices to customers, the price of dairy products to the customer can be lowered. The customer then can either sell his non-controlled dairy products at lower prices or enjoy a larger margin than competitors do who do not benefit from such tie-in sales. Periodically, there are also widespread rumors and reports of rebates and similar clearcut violations of the law.

COMPETITION AND PRICE STABILITY

Most discussions about the desirability of price control in the dairy industry center around the question of price stability, and the conditions for maintaining effective competition among dealers in the industry. These questions are somewhat different for control of producers' prices and resale prices.

The stability problem for producers' prices stems from the fact that milk must be disposed of almost immediately upon being produced. Ordinary market adjustment processes may not be rapid enough and sensitive enough to handle the product flow without large fluctuations in price and without recurrent dumping of unsaleable surplus product. The existing system, with classified pricing, guarantees that all milk will find a market, and that blend prices will not fluctuate wildly. Moreover, the competitive conditions described in earlier sections of this Appendix assure that the stabilized prices will not wander far from the average levels that would be maintained without regulation.

Classified pricing also provides some stability for dealers, by eliminating the need to predict accurately

what fraction of the milk will be saleable for fluid consumption, and what fraction for manufacturing uses, since the dealers adjust the blend prices they pay accordingly. Apart from this advantage, the processing and distribution of milk does not appear to differ in any very striking respects from the processing and distribution of other commodities. In almost any industry, when prices are left to determination by market forces, the less efficient firms may have difficulty remaining in business, there may be recurrent price wars, and some firms may engage in unfair trade practices to drive their competitors out of business. Government may intervene to prevent or stop major abuses aimed at establishing or enjoying monopolistic advantages, but government intervention does not guarantee profits to all firms in the industry, does not forestall all price wars, and does not, unfortunately, always prevent unfair trade practices.

The problems of unfair competition in the dairy business were investigated several years ago by a special subcommittee of the Committee on Small Business of the U. S. House of Representatives.⁵ The majority of the subcommittee concluded that price-cutting and unfair trade practices were, in fact, endangering competition in the industry, and recommended legislation that would: require publication of prices, discounts, rebates, allowances, commissions, loans, and gifts by all sellers; prohibit price discriminations which would have the effect of substantially lessening competition or tending to create a monopoly; and provide for process under the Federal Trade Commission Act for temporary injunctive relief pending issuance of final orders in litigated cases.⁶

Three kinds of data can be examined with the aim of getting an objective picture of the effects of competition in the dairy industry in controlled and uncontrolled markets: the frequency, duration, and severity of price wars; the rate of decline in numbers of dealers serving individual markets; and the degree of concentration of markets in the hands of a few dealers.

Price Wars

There are few systematic data available with respect to price wars. Price wars do occur from time to time in uncontrolled dairy markets (as in gasoline markets). In such markets they are one of the hazards of doing business. News reports of price wars tend to cite extreme prices, and do not provide information about the duration of the cuts. The data we have already presented on dealers' margins in controlled and uncontrolled markets do provide some evidence, however, that severe price wars are not common or long-lived. For if they were, the average margins in uncontrolled markets would be

much lower than those in controlled markets. As we have seen, they are not. From Professor Bartlett's data, we can obtain some notion of the percentage of uncontrolled markets, at a given point in time, in which dealers' margins were unusually low. In about ten per cent of the 114 uncontrolled markets for which he provides 1962 data, the margin was below 7½ cents; in about one-fifth of the markets, it was 8½ cents or below; in three-fifths of the markets, it was above ten cents.⁷ These data indicate a substantial stability of prices in uncontrolled markets. Data from individual markets after removal of price controls, and during periods of recurrent price wars are consistent with this conclusion.

Elimination of Dealers

Because of the greater efficiencies of large-scale operation, and possibly for other reasons, the number of milk dealers has been declining rather rapidly, over a long period of years, in virtually all markets. The important question is whether dealers have been forced out of business more rapidly in markets without, than in those with, wholesale and retail price controls.⁸ Table 1 shows the decrease in fluid milk distributors in selected States, 1950-57. The States with wholesale and retail price control are marked with an asterisk. It can be seen that the average decrease for the eight States with price controls was almost identical with the average for the six States without price controls—31.5% and 31.4%, respectively. The greatest decline took place in a State with price control, and the smallest decline in a State without price control.

⁵*Small Business Problems in the Dairy Industry*, 86th Congress, 2nd Session, House Report No. 2231, Government Printing Office, 1960.

⁶*Ibid.*, p. 79. In Pennsylvania, sales of commodities below cost, with the intent or effect of inducing purchase, diverting trade from competitors or injuring competition, are prohibited under the Unfair Sales Act of 1941.

⁷It should be noted that the margin here is the difference between the average price paid by dealers and the lowest store price charged to consumers. We do not know how much of the milk moved at this lowest price.

⁸Affirmative evidence on this point does not demonstrate, by itself, that unfair competition from large dealers or retail stores is responsible for the decline. Since the smaller dealers serve predominantly home-delivery markets, and since, as previously explained, the store differential, hence the percentage of store sales, tends to be larger in uncontrolled markets, we would expect decontrol to cause some decline in dealer numbers. Whether this is socially desirable or undesirable is, of course, another question.

Table 1. Decrease in fluid milk distributors in selected States, 1950-57

State	Per Cent of change 1950-57	State	Per Cent of change 1950-57
*Montana	75.5	Washington	30.9
Wisconsin	55.0	*California	29.7
*Maine	37.7	*Pennsylvania	26.9
*Vermont	36.1	*Rhode Island	21.6
Ohio	33.1	*New Hampshire	18.9
Connecticut	32.8	*New Jersey	5.5
Massachusetts	32.1	New York	4.6

Source: *Small Business Problems in the Dairy Industry*, p. 9.

A closer look at the data on handlers' licenses for Pennsylvania and Connecticut gives some picture of the nature of the decline. (Table 2)

Table 2. Number of licensed dealers, Pennsylvania and Connecticut

Period	Dealers (incl. sub-dealers)	Producer- distributors	Total
<i>Pennsylvania</i>			
1935-6	1,482	2,272	3,754
1945-6	1,339	1,298	2,637
1955-6	1,136	338	1,474
1964-5	980	186	1,166
<i>Connecticut</i>			
1944	558	1,019	1,577
1954	403	248	651
1964	294	98	392

In both these States, producer-distributors virtually disappeared from the industry after World War II, although the decline in numbers had begun much earlier, while the numbers of all other dealers suffered a slower, but steady, decline. The rate of decline was somewhat more rapid in Connecticut, as might be expected from the greater role of store sales in a State without controls. Both these data and the data previously cited point to the conclusion that changes in the technology of the dairy industry, rather than price wars and unfair competition, are primarily responsible for the decline in numbers of milk dealers.

Market Concentration

If the absence of wholesale and retail price controls is destructive of competition, it might be expected that in the uncontrolled markets there would be a greater concentration of business in the hands of the larger dairies. The available data do not support this conclusion. In 1962, the four largest dealers in the Philadelphia market accounted for 60 per cent of the sales; in the Boston market, 62 per cent; in the Columbus, Ohio, market, 76 per cent; in the Chicago market, 43 per cent; and in the New Orleans market, 62 per cent. The Philadelphia market had retail price controls, and these had recently been established in the New Orleans market; the remaining markets were uncontrolled, and several of them (e.g., Boston and Columbus) had experienced one or more price wars. It does not appear that the absence of price controls had caused any unusual market concentration. Examination of available data from other market areas is consistent with this conclusion.