20 Annual Meeting
NORTHEASTERN DAIRY CONFERENCE
Hotel Statler, Hartford, Connecticut
March 31, 1955, April 1, 1955

Officers for 1955-56

President - A. R. Marvel, President, Inter-State Milk Producers' Cooperative, Inc., 401 North Broad Street, Philadelphia, Pennsylvania.

Vice-President - L. B. Wescott, President, New Jersey Dairymen's Council, and Dairy Representative, New Jersey State Board of Agriculture, Clinton, New Jersey.

Secretary - G. M. Beal, Professor, Department of Agricultural Economics and Marketing, University of Maryland, College Park, Maryland.


Asst. Treasurer - Florence Schultz, Assistant Treasurer, Inter-State Milk Producers' Cooperative, Inc., 401 North Broad Street, Philadelphia, Pennsylvania.

Executive Committee for 1955-56

Cooperative Associations

B. B. Derrick, Secretary-Treasurer, Maryland & Virginia Milk Producers' Association, Inc.; Manager, Maryland Cooperative Milk Producers, Inc., 809 Fidelity Bldg., Baltimore, Maryland. Term Expires 1958

Stanley Beal, United Farmers of New England. Term Expires 1956

A. Morelle Cheney, Secretary, Dairymen's League Cooperative Association, Inc., 100 Park Avenue, New York, New York. Term Expires 1957

Dairymen's Associations

E. C. Masten, Manchester Dairy System. Term Expires 1956

Farm Bureaus

E. S. Foster, General Secretary, New York Farm Bureau Federation, Roberts Hall, Cornell University, Ithaca, New York. Term Expires 1957
Granges

W. F. Sinclair, Vermont State Grange, Johnson, Vermont 1956

At Large

William Johnstone, Extension Economist, Department of Agricultural Economics and Rural Sociology, Pennsylvania State University, State College, Pennsylvania 1958
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PRESIDENT'S REPORT

A. R. Marvel

As president, I welcome you to this 20th annual meeting of the Northeastern Dairy Conference. The presidency came to me as a great surprise because I did not know that I was even being considered. Since that time, I have tried to give as much thought as possible to the milk problems that have and are confronting the territory of the Northeastern Dairy Conference.

However, I have found it to be quite a problem to contact the various officers and members of the Executive Committee because of their geographic location.

We had two meetings in New York in the Dairymen's League office for the purpose of organizing a Program Committee. We were very fortunate in being able to secure Mr. W. P. Davis as chairman, Mr. B. B. Derrick, Mr. Ken Geyer, Miss Margaret Hester, Mr. O. H. Hoffman, Jr., and Mr. Lewis as your Program Committee for this meeting. I, personally, know they have put in a great deal of time and thought in order to have a program for you that not only would be interesting but which would meet the present day problems of the dairy industry. I am sincerely grateful to them and want also to congratulate them for the fine work they have done.

The Northeastern Dairy Conference was organized some twenty years ago with the thought in mind that dairy leaders and milk marketing specialists of the Northeast could assemble some place where they could discuss and bring to the Conference important information as to what the real problems are in the various markets and to discuss ways and means of improving and handling the great supply of milk that is facing the nation. Just as a reminder, may I quote from the by-laws the objectives of the Northeastern Dairy Conference:

"This Conference is organized for the purpose of (1) creating better marketing conditions and hence improvement in the condition of milk producers in the various Northeastern Milk Sheds by encouraging and strengthening the various milk producers' cooperative organizations and by better production and marketing methods with the cooperation of the various State and Federal agencies, to the end that the industry may insure, as far as possible, a permanent and satisfactory milk market stability; (2) assisting in the coordination of activities between groups of producers within a market, between State milk control agencies, between State and Federal agencies, and between milk sheds within the Northeastern States; (3) of providing an agency for contact between the dairy industry of the Northeast and national programs for the industry; (4) of suggesting and encouraging educational programs and research to assist in the solution of the problems facing the industry."

In reference to the objectives of NEDC, quoted above:

(1) Are we, as bona fide cooperatives, doing as much as we should in improving conditions of milk producers in the various Northeast markets and in strengthening the various milk producers' cooperatives?
(2) Are we, as bona fide cooperatives, working as closely with one another as we possibly can in order to bring about more stable and satisfactory markets for our producers?

(3) Are we encouraging educational programs and are we doing enough research work in order to help solve the problems that are facing the milk industry?

(4) Are we doing enough in the promoting of sales of milk to bring about a satisfactory result in more consumption of milk by the public?

(5) In the doing of all these things, are we setting the sort of example to the various federal and state control agencies with which we do business that will inspire them to do the finest job possible for us?

These are some of the things that I hope this Conference will give serious consideration to because there is a greater need today than ever before for the bona fide cooperatives to understand their problems and to work closer and in more unison with one another. Unless we do this, there will never be a solution for many of our problems. The word "cooperation," as I understand it, means working together rather than separately and until we learn to do this among ourselves, how can we ever expect our producers to be satisfied with the cooperative movement as a whole?

There is nothing as helpful, occasionally, as to reexamine one's aims and purposes. You know how we all do with our New Year's resolutions - we write them down and never look at them again. It has seemed good to me for us, today, to reexamine the stated purposes of the Northeastern Dairy Conference and, as your president, I have attempted to do this with you without reaching any conclusions whatever.

It has been an honor and certainly a great privilege to have served you and may I thank each and everyone who has helped make this meeting the success I know it will be.
THE OUTLOOK ON LEGISLATURE AFFECTING THE DAIRY INDUSTRY
E. M. Norton

It is a pleasure to attend this Conference and participate in it. It's old. There are many others growing up around the country that are following your example. I think it's wonderful that you have set a pattern that others throughout the country can follow. I think there are 4 or 5 other areas now that operate marketing conferences patterned much like the one that's been designed here. However, in being given this subject, I didn't know just how to handle it, and it reminded me of a story someone told about one of our Midwest Colleges. The pitch was, it happened on an Economics Professor. This young lady was walking out near the swimming pool one day and dropped her watch in the water at the deep end of the swimming pool, and of course, there were a lot of young boys lying around the pool sunning themselves, but she walked down and got the Economics Professor, and asked him if he would be good enough to go down into the pool and get that watch. He said, "Why, I'll be glad to, young lady, but why would you select me, with so many nice young lads around the pool?" She said, "Well, Professor, you know, you can go deeper, and stay longer and come up dryer, than any one man I've ever seen, and I wish you'd get my watch for me." This legislation is a little dry, but I'll do the best I can with it.

First, I'd like to say that legislation is always dangerous whenever it's in the Congress if it against you, and it's always real good if it's for you. So anything I say about what may or may not happen could change tomorrow, and these are only my impressions. I'll try to explain briefly bills which we thought would be of interest to you, what our impressions as to the chances are, and what the bill will or will not do.

The first one I want to talk about would be the price support bills. They are numbered, for your information if you want to take these, and if you don't, why, that's all right too. HR-12 was introduced by the Chairman of the Agriculture Committee, Mr. Cooley. Another one was introduced by Mr. Johnson of Wisconsin, HR-1360. Now you can tell by the numbers of these bills who's been asleep, and who hasn't, by the way, the fact that the numbers go higher shows how early the member introduced the bill, and they're all very anxious to have a low number on their bill, so Mr. Johnson didn't get there.

Now these are the things that HR-12 contains and so does the other bill, and there have been several others, by the way, along the same lines, 90% price support for the so-called basic crops, 80% to 90% for dairy products, although this range allows for no increase in the dollars and cents to producers; (which I'll explain later) provision not to exceed 75 million dollars annually of C.C.C. funds, to be used exclusively to increase consumption of fluid milk in schools, and extend the program to June 30, 1957. The present authority, as you know, is 50 million dollars annually. It also extends the accelerated brucellosis eradication program for an additional 2 years, ending June 30, 1958, with funds of 15 million annually.

The Johnson bill differs from the Cooley bill in one respect. It proposes marketing quotas for milk, with supports of 90% parity, if quotas are voted by a 2/3rds majority of the producers, the vote is against quotas, the support goes down to 50% of parity. Now to go back up to the 80 and 90% dairy support
range in HR-12, this is the same dollar and cent level as is being received now, because the manufactured parity equivalent has been modernized and is, in effect, dropped five points, so if you put the percentage up five and drop the equivalent five, you have a stand-off that's exactly the same. Five points down and five points up, you have the same dollar and cents here. This bill has been reported out by the House Agricultural Committee and you probably read in your papers that there has been a decision to delay the vote on it until after the Easter recess. There were no open hearings on the bill. I think the Secretary of Agriculture was the only one requested or permitted to testify on the dairy provisions of the bill at any rate. Whether this delay means that the sponsors of HR-12 do not have the votes, or do have the votes, we do not know. I've heard a good many stories about it, but they're just stories, and I think the final roll will come when they go to vote on it.

On the subject of surplus disposal there has been no bill introduced in the Congress, but there has been a good bit of testimony taken on this subject, so I thought it was worthwhile to discuss. Of course, the hearings are being held with the idea that possibly bills will be introduced. There will be hearings, starting on April 1941, by the House Agricultural Dairy Sub-Committee, and hearings have already been held by the Senate Sub-Committee on the subject of surplus disposal, of dairy products and other commodities. Of course, we interested in dairy products testified on that only. We testified last Tuesday, in the Senate, concerning surplus disposal. Among others, we recommended that the food allotment fund be introduced into the legislative hopper. If a bill is to be introduced, we hope that this will be a part of it. If not, on a full scale situation, at least we would recommend that it be tried on a selective area basis to see what bugs, if any, that they had to work out of the program before it went full blast.

Relating to use of Section 32 funds, we filed and testified before the House Appropriations Agricultural Sub-Committee urging an authorization of 25 million dollars of Section 32 funds, to augment the national school lunch program appropriation. At the present time, approximately 75 million dollars of section 32 funds, which are the funds that are collected from import duties, of goods shipped into this country, and used in Agricultural programs, are being turned back to the Treasury, and we felt that an additional 25 million for the school lunch programs would be well worthwhile.

Now they do have a 300 million dollar carry-over permitted, but they haven't been carrying any over for a good many years. Whether that actually will be included in the law or not, I don't know. Now on the school lunch program, school milk and lunch both, which, by the way, we ought to keep separated, as being different funds, one is an appropriated fund, for the purchase itself, another is the use of CC funds, for a specific commodity use. The school milk program, as we call it, has been introduced in several pieces of legislation, all with the same purpose of using our Commodity Credit Corporation funds. The school lunch program was reduced, that is, there was a recommended reduction, by the Department of Agriculture. However, the appropriations committee restored the sum to 87 million dollars. All bills on the school milk program propose increased funds, HR-12, and HR-675, propose an increase to 75 million dollars, HR-2600, 87 million dollars, Senate Bill 1120, 100 million dollars.
Now another piece of legislation, which has been introduced by four Congressmen, two Senators, is the Federation's Self-Help program. Mr. Waltz will discuss that tomorrow, I believe, on the program, so I won't take any more time than just that they have been introduced.

The food allotment plan. Senator Aiken, Senator Humphrey, have introduced S-145, which provides for improved nutrition, through a more effective distribution of food supplies, through a food allotment program to assist in maintaining fair price and incomes to farmers, by providing adequate outlets for agricultural products. This is the same proposal that has been introduced for several years, and there has been no action taken on the bill at the moment. We understand that hearings will be held on this bill, later this year.

Now a hot one, that's in the hopper at the moment, is the Reciprocal Trade Agreements Act. This was originally introduced by Congressman Cooper, known as HR-1. A funny thing about this bill is that it was introduced about 6 or 7 days prior to the President's State of the Union message, on foreign trade. So there's a lot of interest in it, on both sides, it's certainly a non-partisan bill, whether it wins or loses, there are people from both sides of the House and Senate on the bill. We had only one particular objection to the bill, and that is that the original bill avoided any protection that the dairy industry, or agriculture, had, for that matter, under section 22 of the Agriculture Adjustment Act, which gives the Secretary of Agriculture, and the President, the authority, to request that the Tariff Commission hold hearings on import controls on any commodity that they feel is coming into the country to the detriment of producers, when there is a price-support program in progress. Now as you all know, 2 or 3 years ago, a Tariff Commission hearing was held on dairy products, and there is now a Presidential proclamation covering quantitative limitations on imports. I would say this about HR-1, and we testified, that the reduction of 5% per year in tariffs, on a selective basis, made no difference to us. We had nothing to be against on that at all. Our problem was, that when we had a surplus, then we needed quantitative import restrictions, because one percent of surplus, when we're holding 6 or 7, made very little sense to us. It also would depress our market. It takes just about that much to throw this dairy industry in a complete tailspin. When, however, we needed a product, we were all in favor of bringing in as much as they wanted to bring in. Now the bill was very well written. Our main objection, therefore, to the bill was that the organizational provisions covering a general agreement on trades and tariffs, were the only things that were to be presented to the Congress, for ratification of the Congress; the actual operational trade agreement provisions would not be presented to the Congress. We felt that that had the tinges of un-constitutionality to it, that the Congress of the United States, by the Constitution, is the instrument that approves and ratifies trade agreements. That was the dangerous part, we felt, of the bill. Now it is tied up completely, I understand, in the Senate side and reading the paper last night there apparently will be a number of amendments attached to the bill.

The O'Hara bill, which covers the Federation's position on imitation products, it covers a good many others, too, I guess; it provides:

1- that the word imitation must be used on the label of a food product, if it is an imitation of a genuine product, which does not have a definition and standard of identity.
2- that the imitation product must have its own definition and standard, if it is an imitation of a genuine product, which has a definition and standard.

Now that's confusing, but what it means, is that if you're going to sell an imitation product, and we have no objection for the sale of any product that's not injurious to health, label it what it is. Therefore, you will very likely have to charge for it, for what it is.

Now of some interest to you folks in this area, comes a bill, or two bills, that have been introduced into the Congress. The famous Laird-Andresen Amendment to the Marketing Agreements Act. These bills propose to amend the Agricultural Marketing Agreement Act of '37, to provide for national uniform sanitary standards, to be prescribed to govern the production and handling of milk products shipped in interstate commerce. Further, that no marketing agreement or order shall be effective in any area in which Federal, state or local restrictions are imposed. No federal, state, or local law shall operate to prevent the free marketing of the prescribed sanitary milk or milk products. Hearings will be started in the House, before the House Agricultural Dairy Sub-Committee after the Easter recess. Now this particular action has gone from one position to another for a good many days. Just what exactly we are to testify on, we are becoming more and more confused as the days go along. We were informed, day before yesterday that there would be no testimony on any specific bill, and in reply to that, we asked, "Well, will the witnesses be stopped if they talk about the Laird-Andresen Amendment?" "No, they won't. But we would rather they didn't talk about specific legislation". So, I guess what it amounts to, that when you get up there, it's every man for himself, with no general outline by the Committee of what it is you are to talk about. Actually, it apparently is an exploratory hearing, of education to members of the sub-committee, of which there are seven, and I would much rather see this educational program, if that's what we're to call it, go on in front of the full committee, but it happens that it's the Sub-Committee.

We have with us an old amendment to anti-trust law, by Mr. Mason, I believe he's from Illinois, which proposes to transfer from the Secretary of Agriculture, to the Attorney General, jurisdiction for enforcement of that provision in the Capper-Valstead Act, which deals with un-due enhancement of prices by cooperative associations. Now that bill is a perennial bill, and hasn't gotten too far, whether it does or not, I don't know, but again, I repeat that legislation is dangerous, if it's in, and we're watching this one very closely.

This I'll just skip over very briefly, some bills on tax treatment of farmer cooperatives because the next gentleman, Mr. Stern, will take it up fully, I'm sure. All I would add to this at the moment, is that we have asked the full Agricultural Committee to let us show them the film, "Citizen Dave Douglas". I think it would be well, in their lives, to take a look at this film. It's really a rough film, and it's a real hard one to talk about, too, when you're in front of a mixed audience, that is, of business and co-operative people.

These bills on labor-management relations may or may not be of interest to you, but it's hard to tell again, just what would be, so we'll just cover the waterfront with them. Mr. Fogarty introduced House Bill 4565, proposing to amend the Taft-Hartley Act with some relaxation of secondary boycotts, but limited strictly to the construction credits. Now we didn't get in on that one, there were other provisions in it but they finally eliminated all of them down to the construction business.
There have been no bills on the Non-Unionization of Farmers and no action, except a good many conferences between farmer organizations and labor leaders of their various organizations. As you probably know, it may not be happening around here, but out throughout the East-Midwest, there has been quite a drive by various segments of labor, to unionize farmers. Of course, to say the least, I personally, think that they're just off-base as far as can be. How they can negotiate for a price on a union type of affair, I don't know, but they certainly are causing a dickens of a time out in those areas, until as time goes on, farmers are finally convinced that there isn't much can be done except through their own local cooperatives.

The final two: Every time I see the St. Lawrence waterway, I remember a long way back in High School hearing it debated. I've lived to see a bill introduced and passed in the Congress covering the construction of the St. Lawrence waterway. I have further, been taken over the coals pretty badly by Senator Watkins, of Utah, asking me if we didn't have enough problems of our own without worrying about dredging out the St. Lawrence seaway. I had to go up and visit him, and tell him that I had a group of people in my organization that were interested in almost anything. When the question of day-light saving time came up, they voiced an opinion on that too, and they certainly had on the St. Lawrence seaway. The idea of the bill that's introduced by Mr. Wiley, and Mr. Humphrey, both of the mid-west, and obviously, that's where the entire interest, and big interest, comes from, is to widen and support fully, the deepening of the St. Lawrence sea-way to do a full sea-scale shipping job on it. There has been one other bill introduced by Congressman Ellender of Louisiana governing the Bank for Cooperatives. It proposes to provide for the retirement of the government capital in certain institutions operating under supervision of the Farm Credit Administration, including banks for co-ops. It seems to be the general trend amongst our organization to support this legislation to make the Bank for Cooperatives farmer-owned and farmer-controlled. We would be glad to work with any groups to accomplish this end. Thank you very much.
GETTING CREDIT FOR THE TAXES WE PAY

J. K. STEIN

All of us are tax conscious. Even though we have a U. S. economy that is ringing up $1 billion daily in gross income, the 30 percent of our national income that taxes take, effect everyone of us. The U. S. Chamber of Commerce says that each of our 164 million citizens today has an average tax bill of $552.

One of the things I had hoped to do today was to show you some good examples of how cooperatives have told the world about the taxes they pay. My search for evidence, however, was very disappointing. Even in annual reports with their condensed operating statements, I found taxes lumped together with other items. If I had any doubts about your paying taxes, I would have good reason to be even more suspicious after looking over some of your financial statements.

Why don't we play up the taxes farmers pay instead of being on the defensive? Why have we hidden the evidence?

Here is an example of what I mean. I examined the published statement of Lehigh Valley Cooperative Farmers in Allentown, Pennsylvania. The condensed operating statement groups taxes and insurance. Now Lehigh Valley is neither the largest nor the smallest cooperative dairy in the country. It did a $13 million business last year. Here are some of the taxes the cooperative paid:

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Real Estate</td>
<td>$25,562</td>
</tr>
<tr>
<td>Foreign Corporation</td>
<td>70.</td>
</tr>
<tr>
<td>Pa. Capital Stock</td>
<td>4,000</td>
</tr>
<tr>
<td>Social Security</td>
<td>49,466</td>
</tr>
<tr>
<td>Federal Income</td>
<td>5,117</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>9,660</td>
</tr>
<tr>
<td>Total</td>
<td>$98,000</td>
</tr>
</tbody>
</table>

This does not include Sales Taxes, Fuel Taxes, and Excise Taxes which, of course, cooperatives pay the same as anyone else.

Furthermore, a survey of the Dairy Industry in the Lehigh Valley area for 1954, just released by the Pennsylvania Milk Control Commission states that the 15 largest milk dealers in the Lehigh Valley area paid $20,892.00 in Federal and State Income Taxes last year. Of this amount Lehigh Valley Cooperative paid $9,570.

Farmers, I believe, pay more kinds of taxes than any other group of citizens and in terms of net income I believe they pay more taxes in total than any other group.

Remember also that two million of our farmers in the U. S. have gross incomes, not net, of $2,000 or less annually, and one million of that group have gross incomes of $1,000 or less.

Net farm income dropped from $14.6 billion in 1951 to $12 billion in 1954. Dairymen know the truth of a recent release stating that dairy farmers took a
capital inventory loss of 33 percent on their dairy herds between January 1953 and January 1955.

Taxes on all farm property increased again last year. This was the thirteenth consecutive year that farm taxes have increased.

Farmers have invested in their operations land, buildings, livestock, and equipment, approximately $160 billion. The U. S. D. A. figures for the year 1953 report that farmers paid the following taxes:

- Real Estate: $865,579,000
- Personal Property: $221,000,000
- Licenses and Permits: $134,000,000
- Motor Fuel Taxes (State): $166,000,000
- Motor Fuel Taxes (Fed.): $126,000,000
- Federal Income Taxes: $140,000,000

These items total about $3 billion and do not include state income taxes, sales taxes, and others in which no accurate information is available.

We know that approximately half of the farmer cooperatives in the U. S. operate so that they are liable for income taxes the same as other corporations, and the other half operate on an agency basis so that all net margins belong to the members or patrons. Remember, that all margins of every cooperative are taxed at least once, namely as income to the member and patron; and for those cooperatives who have not contracted to return margins pro rata, the same corporate income tax rate applies to them as to any other corporation. In effect, they are double taxed.

Now let's step back and bring into focus some of the facts in this argument about cooperatives and taxes.

Most of the confusion is caused by a small minority of individuals who do not like competition—the keystone of our American Private Enterprise System. They would destroy cooperatives, the self-help opportunity of small businessmen farmers and other groups which enables them to compete with larger combines of capital and management. I emphasize that they are a minority.

I believe that most businessmen in America do not oppose cooperatives but instead are using the cooperative or mutual technique themselves to improve the efficiency of their own operations. You do not find the U. S. Chamber of Commerce opposing cooperatives. The biggest mistake we could make would be to assume that most other businessmen are unfriendly, for they are not. Most are uninformed.

Farmer cooperatives themselves are as much to blame as anyone else for the misunderstanding regarding their status because we have not done a good job of telling our story. A shrewd enemy has recognized the vacuum and filled it with his propaganda.

Farmers and their leaders have argued that they couldn't afford to spend the money to get their story across. The following editorial expressed my feelings about this:
"For a few years now there has been a delightful little riddle that has circulated in the advertising trade which concerns two hypothetical manufacturers of mousetraps in an upper New York town. It seems that they both made the same product, sold them for the same price and experienced a limited demand.

"One day, one of the manufacturers decided to do a little advertising, found after he had invested a small sum of money that he was selling a significant amount of additional traps. Later, he doubled his expenditure for advertising and found that he could obtain a sales volume that allowed him to sell his product for a bit less than his competitor. The price reduction brought about an even greater demand for his product, wherein he took steps to improve the quality of his trap, giving him a superior product that sold for less in greater volume than he had ever imagined.

"Meantime the competition had been plugging along on a lot less of everything.

"The riddle asks who paid for the advertising? The consumer? Not with a cheaper, better product. The manufacturer? Not with an improved product, a greatly expanded volume, and resultant profits. Who?

"In the advertising trade magazine "Printers Ink", Dec. 31, 1954 issue, a reader wrote to say, "I know from experience, too, who pays for the advertising that I do. It is my competitor who doesn't. It is the business that he loses to me that pays for my advertising."

I believe farmers and their cooperative leaders are paying for the advertising that someone else is getting.

Farmer cooperatives have improved the quality of farm products and of farm supplies, have helped to narrow margins between producers and consumers, have helped to make thousands of communities more prosperous, have fought the trend toward monopoly in this country. Why should we be in the doghouse public relations-wise? Why should we be labeled "tax dodgers?"

Senator Aiken recently addressed a group that included those who were opposing cooperatives. He said:

"The farm co-op represents a high type of private industry. There are others engaged in private industry who don't like farm co-ops.

"To those folks I say, 'You are very shortsighted. In large measures, the co-op today stands between you and a dictatorial form of government.'

"Take a look at other countries where unorganized millions of farmers have been exploited to the point that they have
become easy victims of agitators—where necessity has overcome reason, where the agrarian revolt has overturned governments.

"Farmers and their families are human beings. They are by nature self-sufficient, but when they see their families suffering and their life's earning disappearing, they will act as other human beings do.

"Totalitarianism will not make much headway on the American farm so long as farm organizations have able, honest, and loyal leadership."

Facts are facts, whether everyone likes them or not. Instead of our telling the public the facts, we have let some people damn us with half truths and untruths.

All business is conducted in this country in one of four ways. These methods did not come into being at the same time, nor are they taxed identically the same. In order of the appearance in America, they are the singly-owned business, the partnership, the ordinary corporation, and the cooperative corporation. Four out of five businesses in this country are owned by individuals or by partners. These businesses pay no corporate income tax, but the individuals who own them are taxed as individuals for any profits that accrue from the business. On the other hand, the ordinary corporation finds its net margins taxed twice, first in the hands of the corporation, and again, except for minor credits, in the hands of the individuals when they receive their dividends. The cooperatives that operate strictly on an agency basis for their members, have no income as a corporation so they are like the partnership. Cooperatives that choose to carry to surplus, margins on non-member business, must report it as income and pay a corporate income tax on it the same as any other corporation would.

Congressman Patman of Texas recently had the following inserted in the Congressional Record:

"A terrific campaign is being carried on concerning the matter of Federal income taxes on cooperatives and corporations. I doubt that any country on earth has ever had or ever will have a system of taxation that metes out exact justice in every instance. We certainly do not want injustices or inequalities, but oftentimes in adjusting one we create a dozen more.

"It is the desire of Congress to make taxes just as equal and uniform as it is possible to make them and is now considering these questions. There are four principal ways of doing business ....

"The Government makes no effort to compel a person or group of persons to operate a certain way; they are privileged to operate either way they choose. They can select the form of business that they desire to the extent of changing from a corporation to a cooperative or to a partnership, if they believe it will help them taxwise. For
instance, the largest brokerage house in the United States, Merrill, Lynch, Pierce, Fenner & Beane, is a partnership. In the year 1954, their published report disclosed a $20 million net profit. This partnership will not pay taxes on the net profit, but the 107 partners will pay federal income taxes on the part they receive. The Railway Express Co. is a cooperative. It is owned by 80 railroads. The Associated Press, the greatest of the national news-gathering agencies, is a cooperative. Mutual investment funds aggregating over $6 billion dealing in stocks and bonds occupy a cooperative status for income tax purposes. Some corporations have changed their status to that of a cooperative believing they will have some tax advantage that way. There is nothing to prevent this being done and it is strictly a matter up to the individuals concerned. Other corporations, after considering the matter, have declined to convert into cooperatives because after evaluating the tax advantages of a cooperative and there are too many disadvantages in a cooperative, which they do not have in a corporation.

"The fight in Congress in recent years has been double taxation. Many people seriously contend that it is double taxation to tax a corporation and also tax the shareholders. Congress has made a substantial step in the direction of relieving this burden by exempting the first $50 received by a taxpayer in dividends from the corporations....."

Now what have I proven? That anyone may choose the type of business he wishes to use in accomplishing his purpose and that each type has tax laws that apply to it. The Congress of the United States, and State and local taxing authorities have considered each type of business in developing the tax structure.

There is no such thing as equality carried out to a fine degree. For example, at a recent meeting of the National Council of Farmer Cooperatives, Leonard Silverstein, a Washington attorney, formerly with the Department of Internal Revenue, presented a 16-page outline describing "special situations under our Federal Income Tax Laws." They include deductions of $5 per day as a subsistence allowance for policemen and $3,000 annual living expense for Congressmen. Moreover, 27 1/2 percent of all oil and gas produced is tax free, 23 percent of sulphur and uranium, 15 percent of most minerals, 10 percent of coal, 5 percent of brick and tile clay, etc. The list goes on and on.

One situation to the contrary which hits farmers hard, is where they pay Federal and State taxes on gasoline and fuel used on the farm in their production, the taxes having been levied originally to build roads and presumably to be collected from fuels used for transportation on those roads.

May I conclude with a plea that each of you this year, in every community in which you serve, buy space in every local paper and list separately the kinds of taxes and the amounts of taxes your cooperative paid during the past year. In many communities across the nation, farmer cooperatives are the biggest taxpayers. Let's get our candle out from under the bushel and set it on a hill top. Give the facts about the taxes your cooperative pays, to such organizations as the local Chamber of Commerce, your Service Clubs, and all other groups in your community. Let's start getting credit for the taxes we pay.
The subject of classification payments has attracted rather widespread attention during recent months. Much of this attention is the result of differences of opinion as to the need for, or the effect of, these payments.

An explanation of classification payments, as they have been applied under Federal milk marketing orders, may aid in evaluating their effect and their importance. A better understanding of the operation of the payments may also provide the basis for arriving at a solution to some of the more difficult problems they involve.

The question of classification payments arises only where there is unregulated or unpriced milk in the market. If all milk sold in a fluid market is paid for in accordance with its utilization, the objective of equal product cost to all handlers as set forth under the Agricultural Marketing Agreement Act of 1937, is satisfied.

The practical application of this fact may be illustrated by contrasting the ordinary operation of orders in markets which have marketwide pools with those having individual handler pools.

There are, at the present time, no classification payment provisions in Federal orders which provide for individual-handler pools. The reason for this is that practically all of the milk sold in handler pool markets is priced. If milk from a plant not regulated under a marketing order arrives in a handler pool market, it is possible to extend the classified pricing program to such a plant without disturbing prices paid by handlers in the regulated market. Such an extension of regulation puts the new plant on the identical classified pricing basis as all others doing business in the market.

Exemptions from regulation have been provided in some handler pool orders to permit minor quantities of unregulated milk to enter the market as needed, when it was evident that the amount of such milk would not endanger the stability of the market.

With a marketwide pool, the problem is different. The existence of a true marketwide pool means that any milk plant which is subject to the classified pricing program automatically participates in the pool. Thus, the producers supplying each plant share in the additional returns from Class I utilization of the entire market on a proportionate basis with all other producers.

As a result, a marketwide pool presents an incentive to any Grade A milk plant which is marketing its milk primarily for manufacturing uses to come under the order. Such a plant will draw equalization payments from the pool, which it may use to increase its payments to producers, or for other purposes, if producer payments are already at levels required by the order.

Thus, a marketwide pool which allows any plant to participate whenever it stands to gain an advantage, may work to the disadvantage of the market itself. This may be reflected in different ways. It may result in the distribution of Class I premiums to plants and producers who have little, if any, actual function or obligation so far as the fluid market is concerned.
Such plants may have profitable manufacturing outlets, or may sell most of their milk in other fluid markets during seasons when supplies are short or when such outlets are more attractive.

Distribution of proceeds from Class I sales to such irregular suppliers reduces returns to the producers who are regular sources of milk for the market. If class prices are no higher than they need be to stimulate adequate production, such lowering of returns endangers the milk supply for consumers, and creates an apparent need for higher Class I prices.

Irregular sales of milk in a regulated market by plants which seek to gain advantage through a marketwide pool also may have an unstabilizing effect upon the orderly movement of milk through the channels of trade. If the advantage such plants may gain is substantial, they may offer milk for sale on very attractive terms in order to come under the order. Sales of this nature result in temporary dislocations and interfere with orderly marketing by plants which may otherwise become regularly associated with the market.

The safeguards which have been used to avoid such disturbances consist of measures to avoid pooling any plant which makes only minor quantities of milk or seasonal surpluses available to the market. It is possible to avoid pooling such plants by not bringing them under regulation. This means, however, that the prices paid producers by such plants will not necessarily be determined on the basis of the use made of the milk.

Whether or not a plant is regulated and pooled has no bearing on whether it may sell milk in a fluid market. There is no authority under the order program to say that milk acceptable to the local health authorities may not be sold in any market. It follows, then, that if a plant ships its seasonal surplus milk to the market or otherwise makes irregular shipments not in accordance with market needs, it will not be brought into the pool and that such shipments of milk are consequently unpriced.

In the absence of a classification payment, or some substitute the unpooled plant would have free access to the market with no pricing regulation at all. This might, under some circumstances, present an opportunity for an unregulated plant to dispose of its surplus milk to the Class I outlets of a regulated market. Such sales would be in competition with regulated distributors, who must pay producers the full Class I price for any milk they sell for fluid use. Some unregulated plant operators may feel that the order program should permit them to make such sales. It seems doubtful, however, whether regulation, or even the classified pricing program itself, could continue to exist long on this basis or whether such an arrangement would satisfy the requirements of the Act.

The standards of plant participation, which have been used under the order program, are intended to be such that a plant will not come under the order unless its association with the market is sufficient to justify including it with the market pool. Milk which is sold in the market from unregulated plants is subject to payments which are designed to remove the advantage the unregulated plants may have from selling in competition with plants which are controlled by a classified pricing program. Stated differently,
the payment is designed to bring the unpriced milk into the framework of a
classified market in such a way as to leave the originating plant unregulated,
and yet preserve the classified pricing program by creating the effect of
classifying such milk. It is for this reason that "classification payments"
is more appropriate than the commonly used term "compensatory payments" for
referring to this order provision relative to unpriced milk.

If the objective of classification payments is to make certain that all
milk in the market is actually or in effect brought under the classified
pricing program, then it is necessary in order to evaluate the usefulness of
such payments to examine two additional questions:

(1) Is the classified pricing program essential so that it needs such
    protection?

(2) If it is worthy of protection are there other means by which it
    might better be protected?

The reason for classified pricing systems are well understood by most
industry people in fluid milk markets. They are better understood by those
who were in the milk marketing business before the classified pricing systems
were developed, than by those who have grown up under classified pricing.
It is possible, however, that the people who were involved in the early
struggles under which the classified pricing programs developed have a tendency
to forget what was involved and to take the classified systems for granted.

Classified pricing systems are now used in all of the larger milk markets
of the country. Many of these were developed at a time when milksheds were
more or less limited to farms which were under rigid inspection of the health
authority having jurisdiction over the local market. Such inspection was
necessary because of the inadequacy of other methods of assuring the safety
of the milk supply. Under such systems, the classified pricing program was
subject to far less pressure than it is today. Even so, these earlier classi-
fication plans developed, as a rule, only after years of turbulence and, in
some instances, chaos in the market.

The two basic conditions which brought about classified pricing systems
were:

(1) The inability through ordinary means, including price changes, to
    bring about adjustments in production or sales so that they were equal on a
day-to-day or on a seasonal basis.

(2) The need for a premium over ungraded milk prices to assure adequate
    production of quality milk which was acceptable for use in fresh fluid form.

The reasons why it is necessary for the level of supply to be somewhat
above the Class I sales of a fluid market, such as perishability of fresh milk,
and seasonal and daily fluctuations in production and in consumption, are
well known. The extra production provides a cushion, or reserve which assures
an ample supply for the market at all times.

The need for higher prices, to encourage production of Grade A milk,
has been established on the basis of many years' experience. Milk is a highly
perishable product, easily contaminated. If farmers are to deliver a quality
milk satisfactory for fluid consumption, the price they receive for such milk must be somewhat above that obtained from milk used in manufacture. The higher price must be paid by those who use the milk for fluid consumption if they are to have assurance that quality milk will be available as they need it. Such extra costs must be reflected, therefore, in the Class I price. The extra or reserve milk above the needs for Class I use must be disposed of for other purposes which do not yield an extra return. If such milk is to be marketed at all, it must move into manufactured products. If it were to be run down the drain, it would yield no return at all, and the price for that portion of the product sold as fluid milk would have to be increased an off-setting amount to maintain the necessary levels of production. This reserve milk is an essential part of a market supply, however, and it must be disposed of in some way.

The return which producers receive for their milk will normally be somewhat less than the Class I price, because the lower return received for reserve milk is combined with Class I sales to yield a fluid price. How much the producers return is above the manufacturing value depends on the proportion of the milk sold for each use classification.

In an unregulated or unorganized market, there is no limitation on how any particular lot of Grade A milk may be marketed. The distributor who can sell the largest share of his milk for fluid use will naturally be in the best position, because his net returns from the sale of milk will be above that of his competitors. His rate of payments to producers probably will be about the same, however, because he will be able to buy at prevailing prices. Since milk dealers are in business to obtain the maximum profit, their interest lies in gaining the largest possible share of the fluid market. Thus, competition to expand fluid sales may lead to price concessions in various forms, first by one dealer and then by another. The only floor or bottom to this price cutting is the value of the milk for manufacture. This price cutting force tends to be strongest, and the potential losses or gains to dealers greatest, during the spring months or other periods of flush production.

Individual dealers are not in a position to hold the line against such price cutting, since no distributor can well afford to pay a premium price for the milk he uses for fluid sales, and sell in competition with others who are, in effect, buying such milk at manufacturing prices.

Producers in many milkshed areas have seen this process develop. In some instances, they themselves have suffered most of the consequences. Handlers who were unwilling to receive enough reserve milk to sustain their own operations on a year-round basis sometimes attempted to gain advantage by cutting off producers. In this way, they pay the remaining producers a blend price and sell all their milk for Class I use. Producers cut off in this process are ordinarily forced to sell to manufacturing plants or ship their milk to other fluid distributors at reduced prices.

The end of such price cutting among producers, like that among handlers, may be the manufactured milk price. In both instances, the competitive process tends to destroy any price differential for Grade A milk production. Without a stable and adequate incentive for production of quality fluid milk, however, the supplies for milk consumers and distributors are jeopardized.
As a result of the experiences under such conditions, producers supplying
most large markets realized that it was in their best interest, as well as
the interest of the market as a whole, to institute a classified price plan.
All distributors would thereby be required to pay a full Class I price for
any milk put to fluid use, and each producer would be paid for his proportionate
share of the extra or reserve milk of his distributor, or of the market.

In many instances, it was necessary to resort to some governmental
authority to insure that each dealer would pay the price for Class I milk which
was necessary to encourage production of adequate amounts of Grade A milk
over a period of time. In this way, the position of all dealers was assured
so far as cost of milk was concerned since their competitors were required to
abide by the same classification program.

By and large, classified pricing appears to have proved satisfactory to
the producers, and to the markets where it is used. There is comparatively
little indication that individual producers supplying regulated markets at
the present time seek to gain a disproportionate share of the Class I milk
sales. This may be attributed to a general realization that classified pric­
ing is essential, and to make it work, each individual must accept the lower
price for his proportionate share of milk sold for manufacturing purposes.

If experience has indicated that the classified pricing program is
essential to individual markets, it is proving no less essential on a regional
basis. However, it is becoming an increasingly complex problem to administer
milk marketing order programs, as fluid milk markets expand and overlap more
and more. During the early days of the program, the problems of supplies and
prices could be dealt with largely at the local milkshed level. The primary
problems of the first classified pricing programs were only those involved in
controlling a market in terms of its locally inspected milk. The purpose of
these programs was to keep the extra or reserve market's own reserve milk from
entering into competition with the fluid milk market and destroying the Class I
price structure.

Now, improved trucks and roads, coupled with the increased interchange­
ability of inspected milk and other factors, have, for the most part, brought
an end to the local character of marketing problems. The increased mobility
of milk has made it necessary to take into consideration the interrelation­
ship of supplies and distribution, not only in the local market but in other
markets as well, some of them far distant.

Obviously, it would be impossible to protect the Class I utilization
of a market from demoralization by encroachments from its own extra or
reserve milk and, at the same time, allow such milk to be brought in without
regulation from another market. It is not difficult to visualize the quick
end which would be brought to classified pricing programs in neighboring cities,
if they were able to unload their surpluses on each others' Class I markets
without limitation of any kind. On the other hand, because of the conditions
which have brought about the expansion in marketing areas, virtually every
market in the country may now be susceptible to the pressures of excess milk
from other markets. As this pressure has grown in recent years an increasing
number of markets have sought protection for classified pricing programs.
The second question to be considered is whether other means than classification payments may be used to stabilize a classified pricing program. The choice seems to be between attempting to deal with the unpriced milk directly, or placing the originating plant itself on a classified pricing basis.

I know of no practicable means of dealing with the unpriced milk directly other than through the classification payments. Placing the originating plant on a classified pricing program would of course mean extension of regulation. The suggestion has been made that handler-pool orders might be used for this purpose and thereby eliminate any need for not pricing all of the milk in the market. Handler pools have worked well in some areas, but they are not adapted to all markets. For example, in any market where producer associations are not able to protect themselves from carrying a disproportionate share of the surplus, a handler pool might mean the end of cooperative marketing of milk.

If regulation were to be extended to all sources under a marketwide pool, it would have to be on a basis which would not involve pooling all incidental sources with the entire market. Such unlimited regulation of all sources likewise has been labeled as a barrier to trade, since some handlers are reluctant to furnish supplemental milk to any market, if by so doing, they will be brought under full regulation. Furthermore, individual regulation of such plants which are not pooled with the entire market could allow unjustified advantages to those plants which are able to maintain a higher than average blend price to their producers. Whether this system would prove better than classification payments is doubtful. In the absence of such an alternative, however, the choices available under the marketwide pooling system appear to be limited. To bring all plants into the pool would mean unlimited regulation and spreading of Class I sales. To limit regulation to certain distributors without some form of control on unpriced milk would unstabilize the market. By limiting the scope of regulation, with appropriate arrangements for dealing with milk from unpriced sources, a marketwide pool may be maintained.

If the best method for dealing with unpriced milk is to levy a charge or classification payment, such payment should be made solely for the purpose of removing advantages from using unpriced milk in competition with milk sold under the classified pricing plan of an order. The charge should be one which will take into consideration the general level of cost for milk which may be used for fluid purposes. It is necessary, however, in determining the rate of classification payment, to recognize that transactions in milk are at the option of the dealers, who may be expected to purchase that milk which they can buy at the lowest price.

Some of the Federal orders base such payments on the difference between surplus prices and Class I prices. In areas or at times where substantial volumes of excess Grade A milk are being manufactured into products, such charges appear justified. In cases where milk is in short supply the appropriate rate of payment is more difficult to determine.

The suggestion has been made that any classification payment should be based on rates actually paid for unpriced milk. In my judgment, this would be unsound for two reasons:
(1) It would not be administratively feasible to determine the actual cost of the milk nor to know what premiums must be added to marketing order prices to reflect necessary handling charges.

(2) It is unsound economics to fix prices under the order program on the basis of the individual handler's costs. This would remove the incentive for a plant to be efficient, or to purchase milk from the most economical sources, and would place the administration of the order program in the position of determining rate of profits for individual concerns. In my opinion, the position of each distributor in relation to other distributors should be determined by his efficiency, as is true in the case of producers.

In summary, the purpose for which classification charges have been used is to make certain that the classified pricing programs of the orders will protect the markets, not only from their own surpluses, but from the surpluses of other markets. Such charges do not prevent milk plants from becoming fully associated with a regulated market. They do not determine which milk will be priced and pooled with the market. They do not provide that a plant may or may not qualify for the sale of Class I milk in a regulated market. They provide only that if a plant chooses not to become associated with the market, the milk it sells into the market may not be sold in such a way as to destroy the effectiveness of the classified pricing program in the market.

Classification payments are neither a feature, nor an adjunct, of high Class I prices. Classified pricing programs are common in large markets of the midwestern dairy areas, as well as in the east and south. In order for a classified pricing program to succeed in any market it is necessary for all distributors to pay a minimum Class I price for milk sold for fluid consumption.

Protection for the Class I price by means of classification payments, is not intended to represent an assurance of a price which is more than adequate to produce the necessary dependable supplies of quality milk, including adequate reserves. Class I prices in excess of this level should not be protected.

In no event, however, are classification payments, by themselves, tools by which such protection can be accomplished. If Class I prices are too high under the order program, they bear the seeds of their own destruction. Such prices bring additional milk to the market on a year-round basis. This comes about through increased rates of production by producers and through the addition of new plants which may be attracted to the market. These additional supplies reduce blend prices, and call for a reduction in Class I prices under the standards of the Agricultural Marketing Agreement Act. Most of the orders now contain provisions which bring about a Class I price reduction automatically when supplies increase in relation to demand.

Many problems remain to be solved in connection with classification payments. There is always a question of what payment is necessary to bring the price of the unregulated and unpriced milk into line with the price in the classified market. The appropriate payment may vary irregularly from market to market, or from time to time. It may be a high rate or a low rate, or it may at times be nothing at all.
There is also a question of what plants should be priced and pooled with what markets. The increased mobility of milk, the growth of sales and supply areas, and the increase in extent of regulation make this a more and more difficult question. These and many other problems which may affect classification payments must be solved for each individual market. All of the facts which can be brought to bear on them are needed. The importance of obtaining the best possible answer is such as to justify the best attention everyone can give.
"I think it might be well to cross-reference these talks we're giving to some of the things Mr. Norton said this morning about the Laird Bill and the Andresen Bill in this session/Congress. While these two bills do not mention the words "Compensatory payments", nevertheless, it is generally construed by people in the industry that these bills are aimed at compensatory payments and Federal Milk Order program. The same bills were in the previous session of Congress. They never even got to a hearing, but they're coming to a hearing in this first half of this session, as Mr. Norton tells us. I don't think there's any doubt but what these bills are aimed at compensatory payments.

It might also be well to mention that these payments have been up in Court twice. There is one case under the New York orders called, in the industry, the Babylon case, which the right title of it is, Kass against Brannan. And there is one case which came out of the St. Louis order, the Bailey Farms case. And in those two cases the Court of Appeals, the United States Courts of Appeals in the two different circuits took different attitudes. The New York case, the payments were held illegal, and in the St. Louis case, they were held legal. In neither case would the United States Supreme Court take an appeal.

Since those cases have been decided, new hearings have been held on the subject in both markets, new findings issued, and the payment provisions of both Orders have been revised, but no new legal attacks have been made on the payments in those orders, or in any of the other orders in which such provisions are contained. I think at the last count (it was two or three years ago) the compensatory payment provisions or the assignment of classification provisions, which amounts to the same thing, were present in forty-four orders. Generally speaking, as Doctor Luke says, they are particularly essential in market pool orders, and inasmuch as the great majority of the Federal Milk Marketing Orders were Market Pool Orders, running way up in the forties, there is no doubt but what these payments are needed in all those orders.

The fact that these bills were introduced by Congressmen from Wisconsin and Minnesota might seem to indicate that there is some east-west fight involved in this thing. In fact, some of the publicity given out in connection, given out in the Midwest, would carry out that indication.

However, there is more of a threat to Market Pool Orders, such as Kansas City, St. Louis or Detroit, without compensatory payments, than there is the New York or Boston Orders, because the extra milk that might find its way into those markets is so much closer. In the case of the Boston or New York Orders, there is not nearly the potential competition from that type milk because of the amount of extra handling that would have to be done to get it here, to say nothing of possible quality questions as result of the milk getting pretty old being hauled long distances.

I wanted to give you reference to those court cases, but the legal status of the payments is that they are in effect, they're being observed in practically all markets and nobody is presently attacking them. As far as their being in effect and being observed is concerned, I believe that you will find this means that no milk is being subjected to compensatory payments because they exist and handlers operate so as to keep any milk from getting into a position where it would be subjected to them.
It is generally understood in the industry that in the New York market, which is somewhere near 30% by volume of all the federally regulated milk, only a few dollars each month are collected in the form of compensatory payments, and that's because of peculiar or fortuitous circumstances. When I say few dollars, I mean a few. I mean as few dollars as I might carry around with me for ordinary spending money purposes, which isn't very much.

Dr. Luke has quoted why the payments are necessary, in describing them. He tried to be objective but in order to describe the payments he has to describe the cause of the payments, the necessity for them. It appears to me that for me to argue for compensatory payments and to repeat what he said would be merely boring to you.

Soon after Secretary Benson took office, he appointed a 15-man committee from the industry to study our federal order program. I happened to be a member, had the honor to be appointed a member of that committee, and I was appointed a member of the sub-committee on compensatory payments. It wasn't called that, but that's what it meant. The chairman of that sub-committee was the absent speaker today, Mr. Otie Reed. The sub-committee had to write a report, but they ended up by writing two reports. Mr. Reed wrote one of the reports against compensatory payments, which was twenty-six pages long and I wrote the other one, with a lot of help from a lot of other people, including Inland Spencer, C. W. Swonger and number of others. My report was twenty-four pages long, and in the course of my report, I quoted a paper which Dr. Luke had delivered in Knoxville, so the whole thing ties back in together again. If I had to prove the case for compensatory payments I'd read you that 24-page report but as I said before, in that report, I did quote Dr. Luke with some approval, and you can get a copy of the report by writing Mrs. Ellen Henderson, which is known as the Federal Order Study Committee report. It was mimeographed in October, 1954. However, I do think you might consider it useful purpose if I try to dis-observe the misunderstandings that have grown up with regard to compensatory payments, to some extent, as well as I can, to add to what Dr. Luke has already done.

There is a terrific amount of misunderstanding about these payments. Within the last week, a man from a big mid-western cooperative got me off in a corner, away from a meeting I was attending, and he said to me - we'd been talking about the Laird-Andresen Bills, that's the reason he called me out - he said, "Is it true that the Dairymen's League benefits substantially from the money it gets from the compensatory payments?" I said to him, "Are you sure you're not talking about cooperative payments?" He said, "I'm not sure." So there you can see the degree of misunderstanding there is in the country about these payments, and this fellow came from right near by the newspaper or trade paper that publishes the attacks on compensatory payments. I don't know what the purpose is of all these people that are circulating misinformation and creating misunderstanding about these compensatory payments. I sometimes think that they have various purposes, none of which is to promote orderly marketing of milk in the United States. One purpose might be to sell a trade paper by criticizing an established industry practice; another one might be to collect dues for a trade association, if they didn't have any other issue except to attack an established industry practice, and of course, it might be that people who are indulging in this criticism for these first two reasons, might interest some busy politician from time to time, in the manufacturing milk areas, to make a campaign on the subject of abolishing these trade-barrers, so-called.
In fact, the issue of the Minnesota Farmer, which is an agricultural paper, preceding the last election, had page after page of full-page ads by candidates for various offices, state and federal, promising to abolish these terrible compensatory payments, as trade barriers created by the Federal Orders. It's too bad that there is incentive for people to indulge in criticism which is destructive, but the crux of the matter is, there is this criticism, and it has even got so far as to necessitate hearings by the Dairy Committee of the Agriculture Committee of the House of Representatives on the subject. In creating this criticism, one of the oldest rackets in the world is used, and that is the method of argument by catch-phrase.

You may remember that Wendell Willkie once said, "A good slogan is worth 20 years of analysis." These things are particularly susceptible to such argument. It's awfully easy to call them barriers, it's awfully easy to call them penalties, it's awfully easy to call them import duties, it's awfully easy to call them shut-out provisions. There are a lot of other things that could be called by those bad names. A traffic light on the corner, which prevents your driving a truck full of milk across the cross-street when the light is red, might be called a trade barrier. The gate across the railroad tracks in front of a train at a grade crossing might be called a trade barrier. "The plant operator owns a tank of milk, he should be allowed to ship it anywhere. He's got a property right and that's his property and he owns it." But, of course, that's an old argument, too. That was argued in the Nebbia case, when the New York state Milk Control law was upheld by the United States Supreme Court. The right to let a grocer, who wanted to give away a loaf of bread with a quart of milk, or a quart of milk with a loaf of bread, I forget which, for a combined price, was denied. It was held that while he owned that property, he couldn't use it to hurt somebody else. The Supreme Court told him that he must maintain the Government Fixed price and this decision has gone on down through the years. The property right of an owner of milk to sell it as he may see fit is completely violated, or infringed upon, or encroached upon, by every pricing provision, not just when it's outside milk, but on the inside milk, the regular milk, that's all priced in the Order. The property right of the producer who delivers this milk to a regular order plant is qualified by the Order, because the Order denies that producer, through a price imposed on the receiver of the milk, has the right to sell that milk at cut prices. The order denies the owner of the plant the right to operate his plant as a cut-price purchasing plant. All these pricing provisions violate property rights, if you want to call it that. It's just a question of balancing the equities between the absolute and the unrestricted use of property, and the right of your fellow-citizens to have you use that property so you do not injure them.

"Penalty" is another word, that in the early days of these payments was used, as a slogan, in arguing against the payments. The "penalty" argument, of course, as I said before, you could apply that to the pricing of the regular order milk just as well; any pricing provision could be called a penalty provision. It is interesting to note something that was called to my attention this morning by Dr. Swonger. He said that the first use of this type of payment in anywhere near like its present form, was in the Boston Order, 1848, where it was used to create a privilege, namely, the privilege of the handler, principally operating outside the marketing area, to sell a part of his milk over in the marketing area without pooling it, as long as he didn't sell too much. There was a percentage put in there, I think it was 10%. It was to help him out. Of course, if he sold all of that percentage, he had to make a payment
on it to the Boston Pool, but they created this provision as a privilege to
the outside distributor. So, far from being a penalty, it might be called a
privilege.

The charge that this is a shut-out provision is so foreign to orders with
which I am familiar, and that means primarily the New York Order, although I
am also, of course, familiar with some of the others, that I just don't see
how it can be sustained. In fact, I argued this point with Congressman Andersen
myself, before he introduced his bill in the last session of Congress, and he
didn't have any answer when I got through arguing but he introduced the bill
anyway, so I guess it didn't do me any good. The fact of the matter is, that
under the New York Order, any plant anywhere in the United States can come into
the New York pool, and be a fully priced and pooled plant. All they have to do
is to comply with requirements which show that the plant is really identified
with the market by its operations. They don't have to go and get baptized or
come under the 5th Amendment, or anything else. All they got to do is operate
with their plant so that it's shown to be a pool plant, and then they can be in
the pool, 100%, and stay in as long as they comply with these provisions. It
is not a plant shut-out provision. That is very much misunderstood, misquoted
in the criticisms of these provisions.

One other thing is that these provisions are picked on sometimes as being
provisions which will prevent a market from reaching out and getting the neces-
sary milk supply in case of shortage. All of the modern versions of these pro-
visions, and I think that's true of all Orders, at least of all the major Orders,
have specific exceptions so that these provisions do not apply when the market
is short, by a quantitative definition which is not an extreme, but merely a
sensible one.

So much for the criticisms of the payments which I have tried to take up
one at a time. In doing so, I am sort of anticipating rebuttal of what our
versatile Mr. Forrest is going to say in place of Mr. Reed on the subject.

The next question, then, that we come to, is that if these payments are
not penalties, trade barriers, taxes, import duties, plant shut-out provisions
or monopoly provisions, what are they? Well, Dr. Luke says there are classi-
fication provisions on milk coming into markets. I don't like that way of
describing it, particularly. I consider them merely a pricing provision on
milk coming into the market. They are for pricing that part of a plant's
receipts that come to the market. That's what Orders are for pricing milk.
We conclude that we're going to have orders, and that we're going to have them
fixed by regions, at least, if not by markets. In pricing milk coming into
the market, the orders price the regular milk, which is identified, not by
adjectives like "regular", but by performance. The identification provision is
for complete coverage of all milk taken in at the plants, which are a regular
part of the market as shown by these performance provisions. Some other milk
that might come in occasionally from more remote or intermittent irregular
shippers. This milk is priced in the hands of the receiver, but it is a pricing
provision that prices only a part of the milk taken in at the plant, instead of
all of the milk taken in at the plant. It's still a pricing provision, and a
pricing mechanism. I'd like to emphasize that.

Now why does this milk, why do Orders have to have provisions for determin-
ing what milk is to be priced under them. Well, that seems so fundamental I
won't dwell on it long. It is confined to market pool orders because, as Dr.
Luke so well said, on handler pool Orders this question doesn't arise with any substance. And on Market Pool Orders, we are going to blend together receipts from sales and uses of milk of many producers, and then divide it by the total so as to put out a uniform price. Thus, you will have, in effect, the taking of money from one producer and giving it to another. If you're going to do that, and if you're going to force handlers to give up their property rights and the right to free and unfettered operation of their businesses, and put them in jail if they don't comply, you've got to have something definite you've got to define this thing on which you regulate the price.

Now if you pick out the milk you're going to price, you must have rules for picking it out, and the rules for picking it out, unless you want to price all the milk received by every plant that on any occasion have some milk by chance find its way into any market, you're going to have to distinguish between the regular plant and the occasional plant. But you've got to price all the milk. If you don't price all the milk, both your regular and occasional, and price it at prices which will sell to handlers at somewhere near uniform prices you have, of course, not only violated the provisions of the Marketing Agreement Act, which calls for a uniform price but also you have a terrifically unfair and discriminatory regulation, which no act of Congress could justify.

As I've said once before, there are only two ways of doing this thing. When this Committee of 15 got through, they took a vote on whether this had to be done by compensatory payments, and I think 13 voted, 10 to 3 in favor of compensatory payments, this being the only way they knew how to do it, but they all joined in a report (I'm speaking of the Federal Order Study Committee) they all joined in a report agreeing that you can't have Federal Milk Market Orders program without having rules to identify coverage.

As I said, there are only two ways to do this thing. One of them is, to price all the milk, which has proved impossible, administratively, with the great mobility of milk, as Dr. Luke has pointed out. It might be provided to include any plant, which at any time has by any chance shipped any milk into the market, or on only pricing the irregular milk when it does come in. When I was deliberating with this Committee of 15, the challenge was continually thrown up by those of us who were defending compensatory payments, particularly by Dr. Swonger, he was very insistent that somebody answer the question, and so was I, for that matter, of how you're going to run these market pools without the compensatory payments. And when I was talking to Congressman Andresen, I asked him that question, and he couldn't answer it, and nobody answered it in the Committee of 15. Until we get an answer, until we know of some workable method of running the market pools without these payments, I feel they should stop criticizing the payments, and not make football out of them for votes, dues or circulation. That's all I have to say.
I am sorry that Mr. Reed was unable to attend this meeting because he certainly would present the point of view of his people more vigorously and more capably than I can. Let me hasten to add, however, that most of the points he has raised about Federal orders are ones which persons responsible for the administration of the market order program also raise in connection with their analysis of certain provisions that are requested for incorporation into Federal orders. Generally speaking, Mr. Reed's difference of opinion with supporters of the order program appears as a matter of degree rather than of substance. I, myself, of course, do not agree with his contention that the order program is maladministered.

All my early training in connection with milk order programs was taken under the direction of Mr. Reed and Dr. Gaumnitz and I have reason to believe, therefore, that the basic philosophy underlying this program remains essentially unchanged since the days when they were responsible for its direction. Naturally, of course, many refinements have been made during the history of the Federal order program. I think it is inherent in any kind of regulation that it cannot stand still. This is especially so in the regulation of fluid milk marketing because milk marketing is subject to basic unstabilizing influences. Indeed this instability is the principal reason for the Federal order program.

During the period since 1937 the marketing of fluid milk has undergone continuing evolution. More recently the changes have assumed almost revolutionary proportions. Under the circumstances it appears obvious, if the regulatory program is not to stultify progress, that it must adapt itself to changing conditions. We think the order program has been so adapted and therein, I think, lies the explanation of the changes in the program to which Mr. Reed points.

The tools which are afforded by the Agricultural Marketing Agreement Act for the regulation of the milk industry are powerful ones. If misused they could interfere with the efficient development of the industry. We who have responsibility for administering the milk order program have been sensitive to the need for adapting the program to changing conditions. We want the program to foster and encourage efficiency in the milk industry; we do not want it to encumber progress.

Fundamentally, of course, the order program is designed to moderate the inherent unstabilizing influences which beset the industry. We want to accomplish this end; but we want to do it in a way which will not interfere with the healthy development of the industry. Because this is the end we seek, it is important that all objections concerning the program be given the most careful study. Mr. Reed has presented a group of objections which are worthy of this study.

As I understand Mr. Reed's point of view, his objections to the Federal order program may be summarized as follows:

1. Prices to producers in fluid milk markets are unreasonably high and this leads to production of excess milk and a reduction in consumption.
2. Compensatory payments provided for in Federal orders operate to limit the movement of qualified milk into regulated markets thereby tending to implement local monopoly.

3. In somewhat the same way, allocating milk from irregular sources to lower priced classes also restricts the entry into regulated markets of qualified milk.

4. Such provisions are not necessary in connection with the effective operation of marketwide pool orders.

5. Excess milk production in fluid milk markets is converted to manufactured dairy products which deprives the Midwest producers of much of their normal market and requires additional purchases under the price support program.

6. Excess milk is sometimes allowed to be disposed of in unregulated milk markets at lower prices.

Mr. Reed points out that the Agricultural Marketing Agreement Act specifies that prices should be fixed at levels which will bring forth an adequate supply of milk for the regulated market; consequently, he states, whenever there is any surplus above a predetermined normal, prices should be reduced. He then points to the increase in the amount of surplus in fluid milk markets during the last two years and says that prices, therefore, should be reduced to a level such that there will be no more than a normal surplus irrespective of the level of prices that would result. Moreover, in his reckoning of an adequate supply for a market, Mr. Reed counts all milk which any health authority in the market would approve irrespective of the location of the supply or its actual association with the marketing area. Any provision which defines more precisely the available milk supply for a market is considered a restriction on the movement of milk and he interprets this as contrary to the provisions of the Agricultural Marketing Agreement Act.

Some people in the Midwest also contend that all Class I pricing formulae should be based on prices paid for milk of manufacturing quality in the Midwest. They maintain, for instance, that the pricing formulae in Boston and New York tend to give dairy farmers in those areas prices which are too high relative to prices received by farmers in the Midwest. They say also, of course, that the pricing formulae used in Boston and New York do not respond quickly enough to the particular influences which affect manufacturing milk prices.

My purpose here is not to answer the points raised by Mr. Reed about the Federal order program. I am constrained, however, to comment briefly on his point relating to price standards of the Agricultural Marketing Agreement Act.

In essence, the pricing standard of the Agricultural Marketing Agreement Act authorizes the fixing of minimum prices at levels which take into account the maintenance of a necessary reserve of milk and over a reasonable period of time will tend to equate the regular supply of milk for the market with sales of it in its primary uses. This standard is to be distinguished from others that might have been included, such as, for instance, the standard of "parity" provided in the price support legislation. In the case of price support, Congress provided a pricing standard not based particularly on equating the supply and demand but rather designed to guarantee farmers a price commensurate with the
price of things they buy. Congress might have provided such a standard in the Agricultural Marketing Agreement Act and, in fact, prior to 1937 did provide for the fixing of milk prices under Federal orders at parity levels.

With the enactment of the present legislation, however, the pricing standard was changed to its present status. In the case of price support programs, because a predetermined level of prices is the objective of such legislation, plans for production and marketing controls are relevant in order to attain the objective of the legislation. In the case of the milk order program, in contrast, a particular level of prices is not the objective. The level of prices, instead, is merely a means for obtaining a desired balance between supplies and sales of milk. Provisions or plans to control or restrict supply have no place in such a program. Under the pricing standards of the Agricultural Marketing Agreement Act, therefore, when supplies of milk increased relative to sales, the price must be reduced. Conversely, when supplies are decreasing relative to sales, prices are increased. Actually the only discretion which may be exercised in this matter is the period of time within which the desirable supply and sales relationship may be attained. Because both supplies and sales of milk respond so slowly to price changes, the fixing of exactly the right level of prices at any time is an extremely difficult matter. It is, nevertheless, the unvarying policy of the Department that at any given time the level of prices provided in a Federal order program should be tending toward the reestablishment of appropriate supply and sales relationship.

Obviously, the difference, between Mr. Reed's point of view on the application of the pricing standard and the Department's policy, in this regard is solely a matter of timing. We, of course, think our interpretation comports more nearly with the statutory objective of moderating the unstabilizing influences which inhere in the marketing of fluid milk. I hope I have presented Mr. Reed's point of view fairly. I know I have not presented it as forcibly as he would have done if he had been at the meeting.
TRENDS IN MILK PRODUCTION AND CONSUMPTION
Stewart Johnson

My purpose today is to describe and explain some of the more important changes in milk production and consumption which are of concern to producers in the Northeast. I shall deal with these changes from a national, regional, state and local basis, using 15 tables, which are attached, for the pertinent statistical information. The first 6 of these are concerned with production, and the next 9 with consumption. Copies of these tables have been distributed, and I think they will be of help to you in following my discussion.

1. Changes in milk production by states

Sometimes I get the impression that milk production is just like the water in the Mississippi River — that it "just goes rolling along", regardless of price and other causal factors. A quick look at what has happened during the past 15 years in the various states should suffice, however, to dispel this impression (Table 1).

Between 1938-40 and 1954, milk production increased by 92 percent in Florida, 64 percent in Maryland, 51 percent in California, 50 percent in Delaware, and 39 percent in Virginia. In all 5 of these states which had the largest percentage increases in production, the number of people, as will be shown in a later table, increased much faster than the national average. Larger production increases in some of these states were needed to supply fresh fluid milk for a growing population.

The large increases in some states apparently were due to a growing realization of the dairy potential existing in the area. Tennessee and North Carolina are examples.

Wisconsin, the leading dairy state before World War II, specialized even more, with a 36 percent increase as contrasted to 15 percent for the country as a whole.

Among the 24 states which had the greatest percentage increases were only 3 from the Northeast. Pennsylvania was eighth, New York was fourteenth, and Vermont was twentieth, in rates of increase. The Middle West claim that the national surplus of milk at existing prices results in large part from increases in milk production in the East is clearly in error.

Surprising to some, I am sure, will be the long list of states where less milk was produced in 1954 than in 1938-40. Despite a population increase in the United States of 23 percent during this period, there were 11 states producing less milk. Of these, the most important dairy states were Iowa, where dairymen turned to corn and hogs, and Texas, where dairymen turned to cattle, cotton and cash grains. The other states with less production in 1954 than in 1938-40 were in the Great Plains or Rocky Mountain areas, plus Oregon and Washington on the West Coast.

In total, the Mississippi River may be rolling along, all right, but with a 92 percent increase in milk production in Florida and a 25 percent decrease in milk production in Texas, you can't say the same for each of its 48 tributaries.
2. Changes in milk production by regions

The largest percentage increase between 1938-40 and 1954 was in the South Atlantic states, with an increase of 33 percent.

The increase was 26 percent in the North Atlantic states. It was nearly the same, 21 percent, in the East North Central states. Even though percentage increases were similar in these 2 areas, the absolute increase was much greater in the East North Central states, more than 7 billion pounds as compared with less than 5 billion.

Production decreased in the West North Central states, by 1 percent, and increased only 2 percent in the South Central states, and 4 percent in the Mountain states. With many farmers in these areas able to make a good living from wheat, cotton, corn, hogs, and cattle in the 1940's and early 1950's, apparently the opportunity was welcomed not to be tied down to twice-a-day milking. With more prosperous conditions, farmers who had found dairy cows almost as much of a nuisance as a source of income could afford the luxury of not milking cows. 1/

3. Allocation to states of the 1952-54 production increase

Milk production and consumption were about in balance in 1952 at the prices then prevailing. Not until November of that year did the government begin to buy butter. That this was so was due to the fact that milk production in the United States in 1952 was one percent lower than in 1950, and also one per cent lower than the 10-year 1940-1949 average.

But between 1952 and 1954, milk production expanded sharply. The increase from 1952 to 1953 was 5 percent. From 1953 to 1954, the increase was 2 percent. If it had not been for these sharp production increases, totalling 7.2 percent in the 2-year period, we would not have been plagued with surplus problems in the dairy industry these past 2½ years.

It is of interest to see where the extra milk came from, particularly so since some groups in the Middle West blame eastern fluid milksheds for the surplus in manufactured dairy products.

Of the total increase, one-third came from the 3 states of Wisconsin, California, and Minnesota (Table 3). Nearly one-sixth of the increase came from the single state of Wisconsin.

Only one of the 48 states, Wyoming, failed to contribute to the increased supply. All of the other 47 states increased their production.

New York, Pennsylvania, and New Jersey together accounted for 11.9 percent of the extra milk between 1952 and 1954. The New England states accounted for 4.3 percent. Thus 9 Northeastern states (New England and Middle Atlantic) together accounted for about the same milk production increase between 1952 and 1954 as did the single state of Wisconsin.

1/ This idea, and a detailed analysis of factors affecting milk production, appears in Progress Report No. 97, "Changes in Milk Production in the United States, 1924-51", G. E. Brandow, Pennsylvania Agricultural Experiment Station, February 1953.
4. Changes in milk production this year

So far this year U. S. milk production has been running below last year. We have only 2-month's data, but these show a decrease of one percent (Table 4).

The 5 states with the greatest percentage increases from last year are Ohio, New Jersey, California, Mississippi, and North Dakota.

The 4 states with the greatest percentage decreases from last year are Wyoming, South Dakota, Tennessee, and Nebraska.

Wisconsin and New York both show an increase of one percent, while Iowa shows a decrease of one percent, and Minnesota a decrease of 3 percent.

The U.S.D.A. estimates that milk production for the entire year of 1955 will equal that of 1954, with a one percent decrease in the first 2 months of the year, the supply situation looks brighter from a price standpoint.

5. Changes in milk production by states, 1925 to 1939

In the 14 years from the middle twenties to the late thirties, milk production also expanded or contracted at widely differing rates as among the states. The range was from an increase of 59 percent in Florida to a decrease of 10 percent in Maine (Table 5.)

Milk production was expanding faster than population in those years, 18 percent for milk as compared with 13 percent for population.

6. Changes in milk production by regions, 1922 to 1932

Among regions the slowest rate of increase from the middle twenties to the late thirties was in the North Atlantic states (Table 6). The fastest rate was in the South Central and Western states.

7. Changes in population by states

On the demand side of the picture, total fluid milk consumption quite naturally is a function of the number of people and per capita consumption. First, let us look at the number of people.

The 15-year increase in population, from 1938-40 to 1954, was 23 percent (Table 7). This meant a substantial addition to the total demand for milk.

Current rates of population increase are more rapid than the average for the past 15 years. Between February 1, 1953 and February 1, 1954, the U. S. population increased by 1.70 percent. The following year, to February 1, 1955, population increased by 1.75 percent. If this rate, 1.75 percent per year, should continue for 15 years, the population in the United States in the next 15 years would increase by 30 percent, one-quarter more than the 23 percent increase in the past 15 years.

The listing of states in Table 7 is in the same order as their percentage increases in milk production between 1938-40 and 1954. It seems signifi-
cant that the first five that are listed had population increases well in excess of the U. S. rate of 23 percent.

In the next 4 states — Tennessee, Wisconsin, Pennsylvania, and Missouri — milk production increased rapidly with lower-than-average rates of population increase. State population and milk production increases, on the whole, were not closely correlated.

Within the North Atlantic states, rates of population increase varied widely, from 8 percent in Vermont to 31 percent in Connecticut. Just south of these states, rates of increase were as high as 35 percent in Virginia, 40 percent in Delaware, and 45 percent in Maryland. In West Virginia, however, the population increase was the least of any of the 13 Northeastern states — only 4 percent.

8. Changes in population by regions

Population increased the most rapidly during the past 15 years in the Western states, 64 percent as compared with the national figure of 23 percent (Table 8). The South Atlantic states also increased more rapidly than average (31 percent).

The rate of increase in the North Atlantic states was 15 percent. The South Central states had the same rate as the North Atlantic states, and only in the West North Central states did population increase at a slower rate than that for the North Atlantic states.

9. Changes in per capita consumption of milk and dairy products

On a per capita basis, and in terms of milk equivalent, consumption changed as follows in the United States between 1935-39 and 1954 (Table 9):

Fluid Milk — increased from 264 pounds to 299 pounds.
Fluid cream — decreased from 66 pounds to 53 pounds.
Butter — decreased from 337 pounds to 177 pounds.
Cheese — increased from 55 pounds to 76 pounds.
Evaporated milk — stayed at 36 pounds.
Ice cream — increased from 25 pounds to 46 pounds.
Other — increased from 8 pounds to 10 pounds.

The most marked change, of course, was in the use of milk for butter. Both in 1925-29 and in 1935-39, more than 40 percent of the total supply of milk was used for butter, and more milk was used for butter than for fluid milk. In 1954, in contrast, only 25 percent of total U. S. milk production was used for butter, and 43 percent was used for fluid milk.

In terms of the classified price plan, 43 percent of the nation's milk output currently goes into Class I usage.

10. Percentage changes in per capita consumption

Between 1935-39 and 1954 the per capita consumption of fluid milk increased by 13 percent (Table 10). This is a significant increase, but did less, of course, to broaden the market than did the population increase of
about 25 percent. The relative importance of these two factors breaks down quite neatly into population increase causing 2/3 of the total increase in milk consumption since the late 1930's, and higher per capita use causing 1/3 of the total increase.

The per capita consumption of cheese increased by 38 percent between the late 1930's and 1954, while ice cream consumption increased by 84 percent. Per capita use of butter declined by 47 percent, of fluid cream declined by 20 percent, and of evaporated milk remained unchanged.

The loss of such a large part of the butter market has been the main cause of discontent among dairy producers. It is important to recognize this as the important cause, and then proceed from the "why" to the "how" of improving incomes of dairy farmers.

11. Recent changes in consumption of butter and oleomargarine

Retail butter prices have averaged 11 percent lower than a year earlier in the 10 months since price-support levels were dropped last April 1 (Table 11). Meanwhile, total U. S. consumption increased by 6 percent.

The data indicate a continued shift in demand away from butter and towards oleomargarine, however, since oleomargarine consumption increased by 5 percent despite a price rise of 1 percent.

On a per capita basis (with population during the year increasing by 1 3/4 percent), the increases in use were about 4 percent for butter and 3 percent for oleomargarine. For both combined, a 5 percent reduction in price has increased per capita use by 3 1/2 percent, which means a price elasticity of demand of -0.7.

12. Consumption per capita of fluid milk and cream in selected markets

For 25 markets scattered around the United States, per capita use of milk and skim milk in 1950 varied widely (Table 12). The rate was as high as a little over one pint daily in the Duluth-Superior market and as low as 6/10 pint daily in Richmond, Virginia.

Per capita use in our largest city, New York, was .86 pint daily, and in Chicago, our second largest city, .83 pint daily.

Obtaining accurate figures on per capita use is a difficult problem, and the data shown should be considered as indicative of approximate consumption rather than as being absolutely correct. We are never sure we have the correct population count to match against the reported sales volumes. Dealers located in a given area sometimes sell large volumes outside the area. Having correct data on volumes of fluid skim is becoming increasingly important as sales of this product increase; accounting procedures on skim milk and skim-milk items vary widely among markets.

13. Changes in per capita consumption of milk and cream in New York City

The New York City market is large enough, and has been sufficiently subject to research studies and uniform regulation over the years, so that data on per capita consumption are of above-average reliability.
Milk consumption per capita rose from .76 in 1940 to .97 in 1945 (Table 13). This was the time of relatively cheap milk because of federal subsidies, and shortages of meats and other protein foods, particularly in large cities far from farms. From the 1945 peak, the per capita rate declined, sharply until 1948 and more slowly since then, to .80 pint in 1954.

Between 1940 and 1954, the per capita use of milk in New York increased by 5 percent. Meanwhile, the per capita use of fluid cream had declined by more than one-third.


In the United States, the per capita rate of fluid milk consumption was .68 pint in 1940 (Table 14). It increased to .76 pint in 1954, 14 years later, an increase of 12 percent.

Even though milk consumption was greater in New York than in the United States in absolute terms in each of these years, the percentage increase was less -- only 5 percent, as compared with 12. What are some of the possible reasons for this lesser rate of increase?

Among those which come to mind are these:

1. The Exclusion of fluid skim milk from the New York data.
2. The influx of Puerto Ricans into New York City, about 500,000 since the end of World War II, with lower-than-average rates of milk consumption.
3. The exodus of many people with medium or high incomes to the suburbs, some of which, like New Jersey, are not included in the marketing area.
4. A lower-than-average increase in earnings of the non-manufacturing group of workers, who make up a relatively high proportion of the population of New York City.

In Connecticut, the percentage increase in milk consumption between 1940 and 1954 was much higher than the national average. Part of the increase may be due to statistical non-comparability of the series; with the Connecticut milk control legislation revised drastically in 1941, and stricter auditing practices followed, the reported figure for 1940 may be lower than was actually true.

The decline between 1945 and 1954 was greater in all 3 eastern markets than in the entire United States. This may simply reflect the fact that meats and protein foods were much scarcer in the East in 1945 than elsewhere, resulting in an abnormally high milk consumption in that year relative to other parts of the country. The sharper rise in milk consumption in the East between 1940 and 1945 tends to give credence to this explanation.

The sharper decline in consumption in New York City than in other areas between 1945 and 1954 probably is explainable by 3 of the factors mentioned earlier, namely the influx of Puerto Ricans, the exodus of higher-income residents to the suburbs without any change in definition of the marketing area, and the exclusion of fluid skim milk from the New York data.

So far in 1955, milk consumption in eastern markets has been running well above a year earlier. For January and February, Class I sales were 2½ percent
higher than last year both in New York and Boston. In Connecticut, they were 4½ percent higher.

15. Changes in fluid milk sales in federal order markets, 1952 to 1954

The agricultural Marketing Service reported whole milk sales for 30 federal order markets for the years 1952, 1953, and 1954 in a summary published last month. After detailed checking, data for two of the 30 markets were discarded for lack of comparability, leaving the 28 shown in Table 15.

Changes in sales for the markets listed are due both to changes in population and in per capita consumption. Between 1952 and 1954, the increase in milk consumption for the 28 markets combined was 5.6 percent. Presumably about 3½ percent was due to the population increase, assuming the population in these markets increased at the same rate as in the country as a whole, and 2 percent to more milk consumed per person.

Inquiries were made of Market Administrators and others as to the reasons either for much higher or much lower rates of increase than the average. Of interest are the apparent reasons for the deviations from average in the following markets:

Knoxville, Tennessee -- The greater-than-average increase was ascribed primarily to an expansion of the area in which Knoxville handlers were distributing milk. In other words, dealers in Knoxville were expanding their sales in areas outside but adjacent to the marketing area.

South Bend-Laporte -- The lower-than-average increase was ascribed to a decline in employment by the Studebaker Motor Car Corporation.

Wichita, Kansas City, and Topeka -- These 3 markets, the first two with the largest percentage increases, and the last with a decrease, have the same person as Market Administrator. His comments are of interest. First of all, he reports that the Topeka sales data in 1952 and part of 1953 include some out-of-area sales which have since been eliminated. Instead of a decrease of one percent, sales in the Topeka marketing area apparently increased by one or two percent between 1952 and 1954. This still leaves a large difference to be explained. One factor is that population increased by 3 or 4 percent in Wichita and Kansas City, and decreased slightly in Topeka. Employment conditions in Topeka have not been so good recently as in the other two markets. Handlers and producers in Kansas City have had more vigorous promotional programs than in Topeka. There was a sharp shift in Kansas City toward 2-quart containers and away from 1-quart containers since 1952; in February 1955, 2-quart containers were nearly twice as important as quarts; and more than 8 times as important as gallons. Although the Market Administrator did not make comparisons with Topeka on container sizes, and did not estimate as to effects of container size on sales, these were his observations concerning important reasons for the differences in sales trends in Topeka vs. Wichita and Kansas City. In addition to the reasons suggested by his comments, data from the Fluid Milk and Cream reports of the U.S.D.A. show a much sharper downward trend in retail prices of milk in Kansas City and Wichita than in Topeka in recent years, and possibly this is the most important reason of all.

Boston, New York, and Philadelphia -- Smaller-than-average increases in these markets may be due in part to marketing-area definitions which exclude many people with relatively high incomes who move to the suburbs. Also,
there is probably less packaged milk shipped outside the area than is generally true in federal order markets, which may affect comparisons. Special reasons applicable to New York already have been covered.

Conclusion

The foregoing gives a few of the more important facts that are readily available and should be considered as milk marketing policies are evolved. The data on production probably are more accurate than those on consumption, particularly those on per capita consumption of fluid milk in various markets. Reliable measures of the latter are particularly difficult to obtain, especially in markets where considerable volumes of packaged milk cross boundary lines of the marketing area. But the data are needed, for evaluation of pricing and promotional policies, and it is hoped that the detailed work necessary for their accurate compilation will be encouraged and expanded.
WHY THE NORTHEAST IS INTERESTED IN SELF-HELP
R. A. Waltz

I am honored to again be at your Annual Meeting. I remember the last year very well. I'm going to assume that all of you have read the Federation's outline of the so-called Self-Help Plan. The Self-help Plan is more a stabilisation and production control plan than it is a Self-Help Plan. The Self-Help part of it is quite important, of course. It would take too long to review the technicalities of the plan itself so I am assuming that you are all familiar with them. I believe in the discussion of this plan, it's extremely important that we look backwards just a short way.

What happened to dairy products during the war, where did butter go, what happened to one of our important markets for milk, what has been the history, the result, or lack of results, under our support program. How well has the government disposed of their accumulation of dairy products? I'm not critical of the attempts made by the government to move their inventory. I am critical of the fact that the inventories have not been moved. I am fully convinced that the handling of those inventories by people intimately associated with the dairy industry, and experienced in selling dairy products, can achieve the results we want more quickly, more soundly, than through any other program yet tried. We heard Senator Aiken last night mention imitation dairy products. We know the effort being made at the present time to open up our markets to foreign production of dairy products.

Imports, as such, are tremendously important to the American dairy farmer. Diverted acres is another extremely important subject. What is going to happen to the acres made idle by government-controlled programs. I mention the disposal programs. Several have been suggested. I believe some that have been suggested could well have been adopted, and I believe that our inventories of some of our products would be substantially lower today had the advice of the industry been followed.

I compliment the American dairy farmers for what they have done so far in the way of advertising and promotion. Thinking particularly of A.D.A. and the dairy conferences. I believe those programs should be extended. I am not convinced that those programs alone are ready to do for us what it is our responsibility to achieve five, ten, or fifteen years from now.

The cooperative dairy associations throughout the country were organized and carried forward by far-seeing individuals, with foresight, and with fortitude. I believe we have become a little bit soft in our view point as to what needs to be done in this highly competitive day and age, if we discharge our responsibility assumed by us for the dairy farmers of the nation.

I noticed that the subject given me was "Why the Northeast is Interested in Self-Help". I believe that could easily be answered. First, because the Self-Help Program is a sound program. Second, the dairy farmers of the Northeast are no different than the dairy farmers of the Northwest or the Southwest, or the Southeast, or the Midwest. They're all dairy farmers. They're in the business, I am sure, in the Northeast for the same reason they're in it in the country where I live, the Northwest. And that's to make a living. They're entitled, whether they're here, in the Midwest, or the far West, to not merely produce
milk at the cost of production, but to produce and market milk at the cost of production plus a profit. And I think it is our responsibility to put forth the necessary effort to do it.

How could it be done? I have seen quite a few articles written, favorably and unfavorably, pointed toward the Federation's so-called Self-Help program.

I think most of the criticism was well intended. I think some of it was not well intended. I can't analyze the motives back of the criticism which I would very kindly call non-constructive, but there must be a motive. I think there is a motive back of some of the effort to put dairy cooperatives out of business. Now, you may be immune in the Northeast, we are not immune in the Northwest. Not if we don't keep our guard up. I don't think we're immune anywhere in the United States, and again I say, that's our responsibility. And I can assure you that the National Milk Producers Federation is alert to the attacks currently being made against all cooperatives, and I hope, alert enough through the support of the membership to not lose any of the benefits that we have secured in the past, and also alert enough to secure new benefits in the future.

The Self-Help program, as I analyze it, for the dairy producers of the United States, is intended to do for all dairy farmers of the United States the same thing that the local and regional cooperative associations attempt to do, and do very well, generally speaking, for producers. Also, taking advantage of the knowledge we've gained through the operation of Federal Marketing Orders, achieve for the farmers as a whole somewhat the same protection and help that has been secured through Federal Marketing Orders.

As I visualize an overall stabilization and production control program, the best we can hope to secure, is at least a minimum valuation on milk. That valuation must be reasonable, of course. It must be realistic, from two angles. It must be realistic from the consumer's standpoint, and it must be realistic from the producers' standpoint. I believe it can be realistic. I believe it can be taken out of politics. I believe it can be handled in such a way that we are not subject to the whim of a political party, nor to the whim of an administration. I don't believe it was ever intended that a drastic drop such as was made in support prices of 90% of parity to 75% of parity, was ever contemplated being made in one year. I don't think it was necessary. Dairy farmers during the past year, have spent in reduced incomes close to 600 million dollars, through the reduction from 90% of parity to 75% of parity. Visualize if you will, what could be accomplished with 600 million dollars. Some of you farmers are going to take my 600 million dollars and tear it to pieces. That's your privilege. Other farmers will say it's about right. You are striving for 5 million dollars budget in the American Dairy Association. The dairy farmer of the nation today has ( -? - ply) a 60¢ per hundredweight assessment against his milk produced. What could be done with that 60¢ per hundredweight assessment? Coca-Cola, or none of the rest of them, could exceed our promotional program, if we had that kind of money to work with, or a fraction of it.

It has been my privilege to sell dairy products these 37 years, and 27 of it for dairy cooperatives. I have never built a market that was any good with cut prices. I don't believe the dairy farmers have benefited over the years to come, commensurate with the reduction in income they have taken during this past year. I don't believe consumers have increased their intake of dairy products near enough to compensate for the loss in price to dairy producers.
What can we do, over the years, thinking further than this year and next year, to put dairying on a competitive basis with other activities? We must take out receipts and balances.

I don't need to tell you that the dairy farmer does not benefit by unduly high prices during shortage periods. You all know that it is certainly not to his benefit to have unduly low prices during heavy production seasons or periods.

Cooperatives have gone a long way in leveling out values. Dairy farmers themselves are going to have to go the rest of the direction if this industry is to be put on a sensible, reasonable, business-like, cold-blooded basis. I think it can be done. I saw some figures, not too long ago, that the government had spent, in all support programs on dairy products, less than 2¢ per hundredweight during the period of time that support programs had been carried on. If that is true, and if we can maintain a reasonable value for the product that moves to consumers, by lifting from the market a temporary surplus of some manufactured product, it certainly isn't anything but good business to do it.

If it requires an assessment on the part of all producers, let's make the assessment on a completely equitable basis because low prices on manufactured dairy products are not going to improve returns for dairy farmers supplying milk to the fluid trade, whether they're located in the Northeast, the Southwest, or the Northwest, or any other part of the nation.

A criticism that maybe most of you have all heard, is that the Federation's Self-Help program is designed to bring assistance only to the fluid milk producers, who have the opportunity of passing the assessment on to the consumer, whereas the manufacturing milk producer will need to absorb it. I've heard just the reverse, that's why should the fluid milk producer shoulder an assessment to help out the butter fellow. So I think you can go in any direction in your criticisms of this program, that you care to go. I saw an analysis that it would be just as expensive to operate at 90% of parity with the producers operating their program, as for the government to operate the program. At whose expense? The consumer's expense. Not so stated in the analysis, and I guess that's right.

Are we in this position, and we face this situation, for all time to come, that dairy products must be produced under distressed conditions as far as values are concerned, or can we level out production with consumption, handle our small surpluses, because that's how they are, as against the total, and if so, how can we do it?

This proposed Self-Help program now introduced to the Congress is the best we could produce. We have had very few helpful suggestions for improving it. There have been some. It was re-written to a certain extent this year, with two changes that I think are highly desirable.

I'll not attempt to go into the mechanics of the program itself, but on the assumption that we might have had six billion lbs. of surplus last year, and those were the figures that were available at the time we made the calculations, dairy farmers could have been assessed a sufficient amount of money to have purchased all of the excess products that appear to be available, dispose of
them at a complete loss, and still have been about 30¢ a hundredweight better off. And in my mind consumers would have utilized and purchased the same amount of dairy products that they did at the lower price. We could have had a fund to stimulate promotional programs, such as carried on by A.D.A., and through A.D.A., if that proved to be the thing to do, we could have carried on research programs impossible today for dairy farmers themselves to finance.

Ladies and Gentlemen, I wish you'd get a copy of the Federation's Self-Help program and read it. I believe you'll like it. It has been a real pleasant privilege for me to attend your meeting. Thank you.
THE AMERICAN FARM BUREAU'S PROGRAM FOR THE DAIRY INDUSTRY

E. W. Tiedeman

Perhaps the best way to start this discussion is to take a good look at where we are today in the dairy industry, and next, how did we get there—then when we know where we are and how we got there it should be easier to decide in which direction we should go.

In March 1953 the Secretary of Agriculture appointed a national advisory committee consisting of some 75 people representing the industry both producers and handlers. This committee met in Washington April 2 and 3, 1953 with representatives of the Department of Agriculture present. The committee was informed that the decision of the Secretary of Agriculture to support milk and butterfat at 90 percent of parity for the year running from April 1, 1953 through March 31, 1954, was made with the understanding that the dairy industry would produce a program designed to minimize the need for government price supports.

AFBF Dairy Program

For some time previous the Dairy Department of the American Farm Bureau Federation had been giving thought and study to the dairy situation and had prepared suggestions for a long-range program designed to get the dairy industry back into balance. These suggestions were approved by the National Dairy Advisory Committee in a meeting on March 30 and 31, 1953, and submitted to the Board of Directors of the A.F.B.F. as a recommendation. The A.F.B.F. approved the recommendation with some slight modifications and it became known as the American Farm Bureau Federation’s National Program for the Dairy Industry. So we were ready with a program and submitted it to the Department of Agriculture in the industry meeting on April 2.

This program was based on the belief that problems resulting from over-production of any commodity can be solved in only two ways—by reducing production or by increasing sales. It is an industry program to be carried out and supported by all segments of the dairy industry, from producer to consumer, as distinguished from one of high rigid support prices. Following is an outline of the proposed program:

A NATIONAL PROGRAM FOR THE DAIRY INDUSTRY
RECOMMENDED BY THE AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation recommends what we believe to be a practical and workable self-aid program for the dairy industry.

The problems resulting from over-production of any commodity can be solved in only two ways, by reducing production or increasing sales.

This program approaches the problem from the standpoint of increasing sales. It is an industry program to be carried out and supported by all segments of the dairy industry, from producer to consumer, as distinguished from one of high rigid support prices. Details and implementation of this program must of necessity be worked out by the industry itself. Following is an outline of the proposed program:
I. Development of an effective, hard-hitting dramatic national sales promotion program which might well include:

(1) A personalized public relations program, including facts regarding the price levels of dairy products.

(2) A national sales promotion program utilizing all communication media which might well include newspapers, radio and television. Continuation and eventual broadening of a national advertising campaign.

(3) Increased effort at the point of sale.

(4) Expanded use of dispensing and vending machines in factories, office buildings, schools, etc.

(5) Increased use of multiple sized containers such as half-gallon and gallon sizes.

(6) Realistic pricing of dairy products, including fair and reasonable margins.

(7) For success in achieving increased sales, dairy products must be made available to the consumer at all times.

II. Elimination and prevention of fraud, deception, misrepresentation and adulteration through effective enforcement of regulations governing the sale of imitation dairy products.

III. A coordinated and directed program of research designed to fully explore the field of nutrition and the possibilities for improved health as a result of wider use of dairy products in the national diet, and to develop new products and new uses for existing dairy products.

IV. National publicizing of accepted weight-reducing diets which include milk and dairy products.

V. A campaign for increased consumption of milk and dairy products by producers.

VI. Production of the highest quality milk and dairy products.

VII. Increased efficiency in the production, processing and marketing of milk and dairy products.

VIII. Recognition of the need for re-appraisal of the value of milk fat and serum solids in the pricing of milk.

IX. The Agricultural Act of 1954 directs the Secretary of Agriculture to study various methods of production control and price support programs, and the American Farm Bureau Federation pledges the continual study and timely evaluation of all such proposals.

This paragraph was added — Sept. 1954.
Following the adoption of this program by the American Farm Bureau Federation, the Director of the Dairy Department attended numerous meetings in a considerable number of states for the purpose of explaining the program to the producers. These meetings were either state-wide dairy meetings such as the one in Iowa or meetings with state dairy committees.

In all of these meetings the National Program was accepted and endorsed as being a practical approach to the problem. It should be recognized that this is essentially a long-range program designed to reduce surpluses by getting sales in balance with production. No effort was made in drafting this program to include any suggestions on the short time problem because at the time it was drafted in March 1953 it was not possible to predict with any accuracy what would happen during the next twelve months with regard to production.

Production

It was obvious that production was increasing to the point where purchases of manufactured dairy products by Commodity Credit Corporation were likely to become very substantial if the increase continued.

Many people in the dairy industry had thought that the increase in the first three months of 1953 might be a temporary one, due to a mild winter, ample supply of high-quality feeds, a drop in the carcass value of cubl cows, and the fact that returns from other types of farming had declined to the point where the returns from dairying were more comparable, and that dairy farmers who had turned to livestock or other enterprises were getting back into the dairy business.

There was one fact, however, that indicated that at least part of this increase might not be temporary, but on the contrary showed a definite trend toward higher production of milk. This was the increase in the number of cows kept per farm. The number of cows kept per farm on January 1, 1953 was three percent higher than on January 1, 1952. For some years previous the number of cows per farm had been declining and the January 1953 figures were the first sign that this decline not only had been halted but the direction reversed.

These meetings held in the various states in the summer of 1953 not only approved the National Program but without exception the groups raised the following question: "What can dairy farmers do themselves to help put into effect the provisions of the A. F. B. F.'s National Program for Dairy Industry?"

Producer Cooperation

Great interest in this program was evidenced in the state of Wisconsin, and the Wisconsin Farm Bureau with the assistance of the American Farm Bureau Dairy Department developed a very comprehensive program of activities at the producer level. These activities included organization of state and county committees and the development of a number of projects which could be carried out by the local groups which proved to be quite successful.

At the annual meeting of the A. F. B. F. at Chicago, December 1953, the dairy session was devoted quite largely to discussion and explanation of possible ways for implementing the National Program. James C. Green, Executive Secretary of the Wisconsin Farm Bureau Federation, explained the work that was being done in Wisconsin.
In order to meet the requests from the various states for suggestions on how to implement the program at the producer level the Dairy Department of the A. F. B. F. assembled a considerable amount of material including suggestions on organization procedure and some fifteen suggested projects, many of which had been tried out in Wisconsin and proved effective. This material was sent to the states early in 1954. A copy of the Wisconsin Manual was included explaining in detail the technique which had been used in the undertaking.

Supports Reduced

On April 1, 1954, the Secretary of Agriculture reduced the support prices on dairy products from 90 percent of parity level which had prevailed in the previous months to 75 percent of parity. Let us take a look at the conditions which faced the Secretary at that time as well as the law under which he operated.

By March of 1954 holdings of butter, cheese, and milk powder, as a result of CCC purchases during the previous year, had reached an all-time high level. Approximately 350 million pounds of butter, about 375 million pounds of cheese and almost 600 million pounds of powdered milk (mostly skim) were held by the government. Production of milk in 1952 totaled 115.2 billion pounds of milk; production in 1953 had increased to 121.2 billion pounds of milk. The number of cows per farm on January 1, 1954 had increased another three percent as compared with January 1, 1953 which was three percent higher than the preceding January. Thus in two years the number of cows per farm had increased six percent. Production in January, February and March, 1954, showed an increase of approximately five percent as compared with the same period in 1953.

This then was the situation that faced the Secretary of Agriculture in determining the support price for milk and butterfat for the new year beginning April 1, 1954. Under the law the Secretary is directed to set support prices at a level between 75 percent and 90 percent of parity which will assure "adequate production". Conditions existing at that time included a record breaking production of milk in 1953, holdings of manufactured dairy products representing an all-time high, increased number of cows per farm and increased production of milk for the first quarter of 1954. In his opinion, this represented considerably more than "adequate production". His decision to support at 75 percent of parity reflected his belief that adequate production would result with supports at that level.

Considerable unrest and dissatisfaction among dairy farmers became evident partly because of the drastic cuts in supports, and also because many dairy farmers felt that since the basic crops including some of the feed grains continued to be supported at 90 percent of parity, that the same treatment should be accorded to milk and butterfat.

Separate Legislation

In this connection it should be kept in mind that support levels for dairy products are authorized under a different law than that which establishes the support prices of the basic crops. 90 percent support for the basic crops was mandatory during 1954 because of Congressional legislation for those particular crops. The Secretary had no choice in the matter insofar as the support level for the basics is concerned.
It should be kept in mind also that the 90 percent support of basic crops is conditioned on production control measures such as acreage allotments and quotas. Production of milk and butterfat is not limited by any control measures. Consequently, it seems very probable that if dairy farmers wish to receive the same parity percentage supports on milk and butterfat which are accorded to the basic crops, it would be necessary for them to accept some form of production control.

Evidence of the thinking in Washington along this line was contained in the Aiken-Anderson bill introduced into the Senate in 1954 which provided that in determining the support level for dairy products the Secretary shall consider the support level for feed grains, but also provided that compliance with such regulations as the Secretary may see fit to impose upon production and marketing of milk and butterfat is necessary if dairy farmers are to receive such support prices.

**Bargain Sale Disposal Plan**

An extremely important meeting was held in Washington on April 19 at the call of the A. F. B. F. In attendance were representatives of the A. F. B. F., the National Grange, the National Council of Farmer Cooperatives, the National Milk Producers Federation, the National Association of Food Chains and others together with representatives from the Department of Agriculture.

The meeting was called to discuss a proposed plan for putting into effect a bargain sale on manufactured dairy products for the purpose of disposing of CCC stocks of butter, cheese, and milk powder. The proposal involved a scheme by which CCC would sell to the trade their holdings of butter at a price which, when averaged with the price of fresh butter at the support levels, would permit butter to be offered to domestic consumers at a price of about 45 cents per pound retail. This plan had been worked out in consultation with various merchandising agencies in the food trade.

**A. F. B. F. Opposed**

The A. F. B. F. definitely opposed this proposal for several reasons; first, it would represent price fixing at a level below that established by the support program for butter; second, as a definite subsidy arrangement, it would lead to continued government control as opposed to free marketing; and third, it was the conviction of the A. F. B. F. that while bargain sales for a limited time may be effective in moving excess stocks of food products, that this particular program as outlined would continue for a period of at least a year to a year and a half and probably longer. Such a program would lead the consuming public to expect to buy butter substantially below its cost and value, and do great harm to the butter industry.

Following general discussion by all of the groups present, including representatives of the Department of Agriculture, Farm Bureau went on record as opposing the proposal. The other producer organizations present voiced their approval of the proposed program with the exception of the Council of Farmer Cooperatives who wished to discuss it with their Executive Committee before putting themselves on record.

Following this meeting, President Kline discussed the Farm Bureau position with Secretary Benson. Due primarily to the opposition of the A. F. B. F.,
action on the proposal was delayed, and a few weeks later the Secretary announced that he had abandoned any plans of this nature.

Most students of the dairy industry recognize today that the proposal was unwise, unnecessary and, if put into operation, would have had a most damaging long-term effect upon the butter industry.

Sales Promotion Contest

Early in May 1954 the American Farm Bureau Federation decided to sponsor a national dairy sales promotion contest as a feature of the National Dairy Program in order to stimulate more interest, activity and a better understanding of the problems involved. This contest offered suitable prizes at the state and county level, and also for outstanding work done by individual farm families.

The contest tied in with June Dairy Month, but did not stop at the end of June and carried through until October. It placed emphasis on local initiative but kept the door open for county and state work designed to stimulate dairy sales through any method which the local groups might adopt.

It is our belief that the success of the over-all farm program depends on farmers demonstrating their ability to help themselves—to make real efforts to sell and use their own products.

The American Farm Bureau Federation has long supported self-help programs, which have enabled farmers to expand markets through sales promotion and educational work.

Self-help begins with the individual and his family. If agriculture hopes to continue to get understanding by consumers of the real value of agricultural products, farmers themselves must demonstrate that they believe in the merits of what they produce.

It seemed particularly appropriate that farmers all across this country should enlist in this drive for national recognition of the contribution which a wider use of milk and dairy products can make to the health and welfare of our nation.

Yesterday, the Board of Directors approved the continuation of this activity in 1955.

Production Changes

Production has continued to outrun demand during both 1953 and 1954. An increase of about six percent in total cow numbers, together with some increased production per cow, is responsible for the sharp increase that has occurred since 1952.

Total production of milk during the year 1954 was 123.8 billion pounds, as compared with 121.2 billion pounds produced during 1953. Milk production for the month of November, 1954 was 8.4 billion pounds, which was slightly above November, 1953, and represented an all-time high for that month. The month of December, however, reversed that position. Production during December, 1954 was 8.833 billion pounds, which is about one percent below that of December, 1953. This was only the second instance during the last twenty-eight months when a month's production was less than for the same month a year earlier.
The rate of production in the second half of 1954 was lower than in the first half and resulted in a production of manufactured dairy products lower than in the comparable period in 1953.

The total production of butter for the first eleven months of 1954 was 1,316,935,000 pounds, which was three percent above the same period in 1953. However, the production of butter in the five months ending November 30, 1954 was below the butter production in each of the corresponding months of 1953. CCC purchased less than 500,000 pounds of butter in October and November, 1954, compared with 35,000,000 pounds during June, 1954 and 3,000,000 pounds in November, 1954.

Production of American cheese for the first eleven months was 956,620,000 pounds as compared with 954,797,000 pounds in 1953. November, 1954 production was three percent below that of November, 1953.

Production of ice cream in November, 1954 was five percent above that of November, 1953.

It should be recognized that statistical data can be somewhat misleading unless the pattern of the dairy industry is thoroughly understood. Nevertheless, the situation does show a marked improvement.

**Support Prices**

The decision of the Secretary of Agriculture to reduce the support prices for manufactured dairy products on April 1, 1954 from 90 percent of parity to 75 percent of parity has remained unchanged inspite of considerable pressure to override the Secretary's decision.

Support prices on dairy products for the 1955-56 cropyear remain at the level of last year. In this connection, it is interesting to note that under the current method of determining "parity equivalent" for manufacturing milk the current price is in excess of 90 percent.

**Present Situation**

Up to this point I have confined my remarks to where we are and how we got there. It is most interesting to compare the dairy situation as of today with the picture of a year ago. To bring us up to date the government holdings of manufactured dairy products for the week ending March 30 are approximately as follows:

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<thead>
<tr>
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<tbody>
<tr>
<td>Butter</td>
<td>235,401,000 lbs</td>
<td>394,000,000 lbs</td>
<td>445,647,000 lbs</td>
</tr>
<tr>
<td>Cheese</td>
<td>328,062,000</td>
<td>396,969,000</td>
<td>425,660,000</td>
</tr>
<tr>
<td>Nonfat dry milk</td>
<td>83,867,000</td>
<td>250,657,000</td>
<td>225,111,000</td>
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</tbody>
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This compares with the following previous holdings:

<table>
<thead>
<tr>
<th>Product</th>
<th>March 31, 1954</th>
<th>March 31, 1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter</td>
<td>364,170,000 lbs</td>
<td>394,000,000 lbs</td>
</tr>
<tr>
<td>Cheese</td>
<td>485,108,000</td>
<td>396,969,000</td>
</tr>
<tr>
<td>Dried Milk</td>
<td>598,795,000</td>
<td>250,657,000</td>
</tr>
</tbody>
</table>

March 31, 1954

June 2, 1954

September 1, 1954
These figures are estimated total stocks owned by CCC, adjusted for commitments to purchase, less commitments to sell. From the standpoint of CCC stocks, the situation has improved during the past few months.

Increased Demand for Milk and Dairy Products

The consumption of dairy products, particularly butter, has been decreasing since World War II. The recent increases in per capita consumption of fluid milk, butter and cheese should continue. The consumption of fluid milk shows some increase (nine pounds per capita in 1954, over 1953, or about 1 billion pounds of milk). The consumption of butter has increased about eight to ten percent during the first eleven months. In a recent conversation with a West Coast operator, I was advised that their sales of butter had increased 23.8 percent compared with the same date a year ago. This could, of course, be a misleading figure because I do not know just what the sales of a year ago were, or what happened to the sale of their competitors. Nevertheless, such an increase is encouraging and may be quite significant.

Among the factors contributing to the increased demand for milk and dairy products are:

1. Lower prices to consumers.

2. The expanded School Lunch Program, which is taking hold rapidly in practically all of the states and should provide an increased outlet for a substantial amount of fluid milk. This is a natural for Farm Bureau and our membership can be of great help by influencing teachers, principals, PTA groups and, in some instances, school boards.

3. The brucellosis program should have some effect toward increased culling of dairy animals.

4. There is a definite increase in the amount of milk being used in the diets of the Armed Forces, in veterans' hospitals and Federal institutions throughout the country.

5. It seems reasonable to assume that at the present per capita consumption, the increase in population will take an additional 1-3/4 billion pounds of milk each year. The latest census figures show the population of the United States on September 1, 1954 to be 162,947,000, representing an increase of 2,800,000 or 1.7 percent over Sept. 1, 1953.

6. Expansion in the use of vending and dispensing machines is beginning at last to take hold. There is a great potential here when the milk distributors decide to really get behind it. The School Lunch Program should help to break the ice in some places where distributors have been reluctant to install equipment. This is not offered as a cure-all, but the possibilities are impressive.

7. The A. F. B. F. Self-Help Program for the Dairy Industry has undoubtedly contributed to some increase in the consumption of milk and dairy products. It is impossible to make a close estimate on just what this increase might amount to, but certainly the activity which was generated during this past year, particularly in the midwest, must have had its effect.
8. The widespread drought in the south during the year has increased the demand for outside fluid milk in many areas which, in recent years, had become self-sufficient. The demand for milk from the southern region will probably continue for at least several more weeks.

9. Expanded sales promotional efforts including advertising, merchandising, research and educational programs by ADA, National Dairy Council and others.

A further possibility for increased exports of dairy products is seen in the recent statement by Secretary Benson favoring trade with Iron Curtain Countries. This could be a substantial amount.

Production Leveling Off

The trend toward a leveling of production, or even a slight decrease in production, has continued during December, January, February, and March. These figures are as follows:

- Total production of milk for December, 1954 was 8.833 billion pounds, which is about 1 percent below that of December, 1953;
- Total production of milk for January, 1955 was 9.11 billion pounds, which is about 1 percent below that of January, 1954;
- Total production of milk for February, 1955 was 8.884 billion pounds, which is about 0.1 percent less than February, 1954;
- Total production of milk for March, 1955 was 10.447 billion pounds, which is 2.0 percent less than March, 1954.

So it is evident that milk production has been below the corresponding months a year previous for four consecutive months. It is also evident that this is a result of a slight drop in the total number of cows on farms, which offset a slight increase in the production per cow.

It is of interest to note that milk production in February was sufficient to provide 1.93 pounds of milk daily for each person in the United States, which is about three percent less than a year ago, and slightly less than the average in 1942-53 period. Milk production per capita on an annual basis in 1954 was practically the same as during 1953 - 760 pounds and 759 pounds respectively. This compared with 734 pounds in 1952, and the 1935-39 average of 803 pounds.

Consumption of Dairy Products Increasing

Per capita consumption of fluid milk during 1954 increased by two pounds over the preceding year. With the expanded sales promotion campaign, the new school lunch program, and other stimulants to consumption, there should be a further increase in per capita in 1955. Along with this is the fact that the increase in population in the United States is now about 2.7 million persons per year. Even at the present rate of consumption there is an increase of almost 2 billion pounds of milk per year in the demand.

While annual per capita consumption of fluid milk is only two pounds higher in 1954 as compared with the previous year, it should be remembered that these figures include milk equivalent of fluid cream. Consumption of fluid
cream has been steadily declining in recent years so that the figures on milk consumption do not represent the true picture with regard to milk itself. Per capita consumption of butter shows a significant increase of four pounds in 1954, to an average of nine pounds. This ended a decline in butter consumption from 10.6 pounds per person in 1950 to 8.6 pounds in 1953.

Consumption of cheese gained slightly in 1954 over 1953, with 7.7 pounds and 7.4 pounds respectively.

In appraising the increase in the consumption of both butter and cheese, it should be remembered that large scale distribution from surpluses acquired by CCC contributed somewhat to the over-all gain.

School Milk Program

Progress in the special school milk program is reported by the U.S.D.A. as follows: "...the special school milk program first announced on September 10, 1954 began to take enough milk to help expand total milk used by November. Under this program, up to 50 million dollars for each of the next two years may be spent to increase consumption of fluid milk in schools over and above the normal consumption in those schools. By November 1954, 44 states and the District of Columbia were operating under the program. In 19,535 participating schools there were 5.2 million children drinking milk under the program. In November these schools showed a 55 percent increase over normal base consumption of milk, an increase equivalent to 32 million half pints of milk, or over 17 million pounds. By mid-January, 1955 nearly 42,000 of the 160,000 schools in the nation had been approved for participation in the program. Therefore, it is likely that consumption of milk will continue to increase as the volume taken by those schools rises. Moreover, the number of schools participating in the program probably will continue to increase the rest of this school year. Under the Agricultural Act of 1954, increased quantities of fluid milk and dairy products also are being supplied to military personnel, including those in hospitals.

"Distribution of fluid milk in schools under the National School Lunch Program in the 1953-54 school year totaled about 850 million pounds. Operation of the special school milk program based upon the current rate of expansion points to an increase of around 50 percent for this current year over the quantity distributed last year. To some extent the increased quantity of milk consumed by children in schools will replace consumption in homes. Over-all, however, the operation of this program undoubtedly will result in an increase in average per capita consumption of fluid milk."

Vending Machines

There has been a substantial increase in the number of milk vending and dispensing machines in the last year. Approximately 16,000 machines are now in operation. It is interesting to note that this represents one machine for every 10,000 population. In contrast, there were 210,000 machines dispensing chewing gum, and 695,000 vending machines utilizing soft drinks.

Vending machines handled $65,000,000 worth of coffee, $210,000,000 worth of candy, $393,000,000 worth of soft drinks, and $690,000,000 worth of cigarettes, as compared with slightly more than $22,000,000 worth of milk. It is apparent that the surface has only been scratched. Vending machines are not held up as a complete answer to the dairy surpluses, but there is unquestionably a very substantial potential here for increasing the sale of fluid milk.
Sales Can Be Increased

A national intensive dramatic sales promotional program with concerted support from both producers and handlers together with a normal increase in population can cure the troubles of the dairy industry. It is not going to be done overnight and producers are probably faced with one or two rather tough years; however, it represents the only sound, practical and permanent solution. There is no magic formula which will cure the existing situation in the dairy industry.

If the dairy industry could do two things; namely, get rid of the low-grade butter and poor cows, we would go a long way toward eliminating surpluses. I realize that it is much easier to say this than get it done, but I do not believe that the dairy industry will ever rest upon a secure foundation until all of our manufactured products are of high quality and until dairy farmers cull out the low producing cows.

I am optimistic on the future of the dairy industry for the long pull. Milk is still nature's finest food. From the standpoint of ability to buy, it is not high priced but on the contrary is at almost an all-time low. These facts, when properly presented to consumers in an all-out sales promotional campaign, plus improved quality, plus efficiency, not only on our farms, but in the processing and distributing fields as well, together with the normal increase in population, can provide a future for the dairy industry which is most promising.

Promising Future

Statistically, there are at this time both bright and dark aspects to the dairy picture, but the over-all situation today is certainly encouraging and represents a marked improvement over the situation a year ago.

One of the most hopeful signs is the increase in per capita consumption. If this continues and the present rate of consumer buying power is maintained, and if we have no further substantial increase in production, I believe that a concerted effort by all segments of the industry to carry out the recommendations included in the AFBF dairy program will get the industry out of the woods.

This is on the assumption that the Congress and other well-intentioned groups will let the dairy industry alone.

I am still convinced that no magic formula can be produced which will cure the troubles of the dairy industry, and that we must continue to rely on fundamentals which include expanded sales promotion on a national scale, the highest quality in dairy products, and the utmost efficiency in dairy operations—all the way from the cow to the consumer.
Fundamental to any good promotional program are the personal contacts made with the people in policy making and program planning positions. National Dairy Council staff members make such contacts with national leaders in government, professional, educational, and consumer organizations so that the industry may benefit from the influence these leaders and groups have of the importance of dairy foods in building good food habits. Personal contacts play a major role in implementing the National Dairy Council program with opinion-influencing leaders.

NDC staff attendance, conferences, and appearances on programs at meetings of national leaders assure the dairy industry of unusual and continuing opportunities to have dairy foods and the importance of the industry presented to the thousands who attend these national meetings.

Eye catching and colorful exhibits and displays at national professional and educational meetings offer an opportunity for NDC to present facts stemming from nutrition research in an effective and dramatic way.

The distribution of National Dairy Council's colorful printed materials some of which you have seen is planned to assure its most effective use. All material is based on research and prepared under the guidance of an Advisory Committee and competent authors who are authorities in their field. Planned distribution of material offers the industry another means of supplying national leaders and groups, the program tools they may use in their own established activities and which assures the proper presentation of dairy foods information. Planned distribution of new NDC materials to key national leaders is given major emphasis as well as the regular mailings of each issue of NDC Digest and Nutrition News.

The importance of the use of movies and slidefilms cannot be overestimated in the NDC balanced program of education of the public. The growth of the television industry attests to the growing importance of a captured audience. The use of NDC educational films by national leaders assures the concentrated attention of millions of viewers each year on the importance of dairy foods. For less than 1/10 of one cent per person you are assured of this undivided attention to your product for from 12 to 15 minutes each time the film is shown. National Dairy Council distributes movies such as, "It's All In Knowing How", the new teenage film, "Uncle Jim's Dairy Farm" for small children and "Weight Reduction Through Diet" to TV and organized groups such as, clubs, churches, schools, and industry.

The presentation of nutrition research facts to professional and educational leaders through the journals of their official organizations, constitutes the NDC professional advertising program. Guided by an industry advisory committee the National Dairy Council presents in its advertising, messages which help meet the problems and needs of the industry. Advertising in professional and educational journals assures the dairy industry of another tailor made way of reaching key leaders in these fields. Professional ads based on research appear in many national professional journals.
Perhaps, better understood and appreciated by most of you is the publicity for the dairy industry and its products which results from National Dairy Council's forty years of service to the press and radio, and in more recent years TV. The publicity that accrues for the industry with little expenditure of funds, cannot be measured in dollars and cents. Food, beauty, health, and science editors are serviced by the National Dairy Council with tested recipes, authentic editorial material and pictures, to present to their millions of readers. The news editors, dairy industry publications, and farm press, who all contribute to the public's better understanding of the importance of the dairy industry and its products, receive timely news of new research and nutrition developments.

As a part of the National Dairy Council's balanced program, our attention is focused to the 34 million school-age children in elementary and secondary schools who should be participating in the School Lunch and/or the Special School Milk Programs. Most of you know that these two programs operate under different legislative authorities. However, their effects upon the diets of children and dairy markets are the same. Both help expand markets by increasing consumption of dairy foods and both help develop food habits which will help hold those markets.

Food assistance to school lunch programs began in 1935 yet only about one-third of the children enrolled in elementary and secondary schools in 1954 were participating in the lunch programs conforming to the operating standards of the National School Lunch Program. Last year the children participating consumed 400 million quarts of milk as a beverage alone not to mention large quantities of butter, cheese, and ice cream.

And so the National Dairy Council is focusing attention on increasing the amount of milk the children drink, by concentrating our efforts in assisting communities, schools, teachers, and parents in establishing and expanding School Lunch and/or Special School Milk programs through the promotional media regularly used by these groups. Program tips for PTA are included; movies are shown on TV, in classrooms and at organized club and group functions, radio releases and stories to newspaper and magazine editors highlight the importance of dairy foods through the School Lunch and Special School Milk Programs.

Through our regular national and regional contacts with the School Lunch Division of the Federal Marketing Service and the state supervisors of School Lunch, National Dairy Council keeps abreast of new developments as the programs progress. We endeavor to take advantage of new ways to increase dairy foods consumption by all of the 34 million school children and to establish lasting milk drinking habits.

An exhibit will be presented and members of NDC staff will attend and participate at the American School Food Service Association Meeting to be held in Denver next fall. Most of the key people in the School Lunch and Special School Milk Programs will be in attendance at this meeting.

Every effort will be made to assure every school age child at least one-half pint of milk at school which will mean 1 billion 360 million quarts of milk to be consumed as a beverage in 1955 or a 66-2/3 percent increase over 1954. Add to this the additional ½ pints of milk many children will consume as well as butter, cheese and ice cream and you can realize the terrific potential of the School Lunch and Special School Milk Programs to your business.
These programs represent only one area of National Dairy Council's nutrition education in the total school program for children of all ages. Perhaps no age group of the school population needs more concentrated nutrition education than teenagers. Surveys show they have very poor dietary standards and consume much less milk and milk products than are needed during this rapid growth period.

Therefore, National Dairy Council will continue to focus special attention on the 35 million teenagers and young adults who, research shows, need to increase dairy foods consumption for their present and future well-being.

Many of these young adults are in schools and participate in clubs and athletic activities where organized nutrition education programs make use of NDC services. But almost as many are in industry and the armed services where an opportunity is afforded through organized activities to show NDC educational movies and to distribute our printed materials through the dental and medical services of these organizations.

And through the regular channels of communications reaching into the home, millions of these teenagers and young adults will learn of the results of research and the importance of dairy foods. Through radio, television, newspapers and periodicals NDC will disseminate information to make these 35 million teenagers and young adults aware of the importance of including regularly in their everyday meals adequate amounts of butter, cheese, ice cream, and milk.

NDC staff will participate at meetings of key leaders and groups who work with these young people regularly. Exhibits interpreting research facts in a dramatic way will be on display at the professional meetings such as the American Medical Association, the American Dental Association, The American Dietetic Association where the family physician, dentist, and other protecting the health of these teenagers and young adults, will be kept informed of the latest information on dairy foods and their relation to health.

Hardly a day passes by that you do not read, hear, or see some appeal to the vast market of 34 million "overweights". There are more fad diets containing no dairy foods than any of us realize. Maybe one of your friends has been on the Hollywood grapefruit, lamb chops and lettuce diet or another freakish diet lacking in many essential food nutrients—particularly those supplied by dairy foods.

The dairy industry has a sound, well balanced weight control program based on a research project financed by NDC at Michiigan State College. Special emphasis will be given to promoting this diet in NDC promotional efforts.

The "overweight" will be made more conscious of his problem and the importance of a sound weight control regime through articles NDC will prepare for newspapers, magazines and house organs, as well as scripts for radio.

The success of any weight control promotion depends on the endorsement and recognition given it by the medical profession. Therefore, NDC will concentrate the attention of the medical profession on this subject with 6 ads on weight control. "Partners in Progress" in this project is the Public Relations Program of the International Association of the Ice Cream Manufacturers. The ads will appear in 19 National Professional journals with over 5 million messages. Each ad is directed to a specific medical problem complicated with overweight, such as the complications with patients having heart conditions, the inactive person after retirement, and the pregnant woman.
Offered in each will be pads of diet prescription forms with space for the doctor's personal instructions to the patient. All menus on the diet prescription forms contain dairy foods, which make the meals more satisfying, and will result in increased consumption of dairy foods by many of the 34 million "overweights".

In addition, professional leaders attending their annual conventions will visit the NDC exhibit where weight control will be featured. An opportunity will be given to those in attendance to register for the diet prescription pads and discuss the subject with NDC staff.

Through distribution of the NDC movie, "Weight Reduction Through Diet", the armed services, industrial groups, civic clubs, and other adult audiences will see and hear of the dangers of overweight and the need for a well-balanced diet including dairy foods.

The points of emphasis relating to School Lunch and Special Milk, nutrition education of teenagers and young adults, and weight control are only several of many activities carried out by the National Dairy Council through personal contacts, meetings and exhibits, distribution of printed material, distribution of movies, professional advertising, press, radio and TV to reach the American family.

The Department of Affiliated Unit Service is the main artery for communication between the National Dairy Council and the affiliated Dairy Council units. Through it flows information from all affiliated Dairy Council units on the developments and effective trends of the Dairy Council Nutrition Education Program. The Department of Affiliated Unit Service provides Executive Directors and the dairy industry leaders on the Boards of Directors with basic information which keeps them abreast of Dairy Council programs as they operate within local communities.

National Dairy Council services to Affiliated Dairy Council Units may be classified as being both direct and indirect. The indirect services, flowing through the Department of Affiliated Unit Service to Affiliated Dairy Council Units may be included in four major activities. It would indeed be presumptuous to attempt to do more than acknowledge the already enumerated activities of both Nutrition Research and National and Special Program Activities of National Dairy Council as indirect yet highly important services to Affiliated Dairy Council units.

The broad scope of Dairy Council work, based upon research and implemented through multiple national media, becomes realistic as it evolves at the local level to improve food habits of boys and girls, men and women. We know much of what to teach in nutrition. We know much of how to disseminate the information. We are increasingly concerned that we learn more of how to teach nutrition so that people will eat as well as they know how.

The need for research in nutrition education has long been recognized by the National Dairy Council. Currently a project is being conducted in Kansas City, Missouri, which when completed will tell us more of the how to teach nutrition effectively. The National Dairy Council is helping to support the Kansas City project and N.D.C.'s Director of Nutrition Education is the co-Director of this research, another indirect service to affiliated Dairy Council units.
The organization of new units helps to increase the effectiveness of both N.D.C. and the affiliated Dairy Council units. In 1955, we anticipate some half dozen markets to affiliate with N.D.C. to add prestige and strength to all units, and derive prestige and strength from the body of Goodwill built up through 40 years of service by N.D.C. to the entire dairy industry.

Direct services from National Dairy Council as administered through the Department of Affiliated Unit Service include the full-time services of four members of the N.D.C. professional staff and part time of three others. The remainder of the N.D.C. staff works indirectly to serve the needs and requests of the local units.

The day-to-day services of the Department of Affiliated Unit Service include study of the many reports continuously pouring into the National office. Advisory services are provided to local Dairy Councils on business management and office operations. It provides counsel and advice for Dairy Council nutrition education program development.

Being fully aware of the fact that the strength of the Dairy Council program depends primarily upon the professional strength and potential of the nutritionists in affiliated Dairy Council units, the Department is constantly at work to help secure and maintain well-qualified personnel. We are seeking those persons who possess both professional and personal qualifications needed for effective Dairy Council work.

Among the most important of all activities within the Department of Affiliated Unit Service are those associated with service visits to units. These service visits usually are made by a member of our Department. However, they may be made by others on the National Dairy Council staff and always are planned through our Department. The Eastern Regional Representative of N.D.C., in the New York Office, gives special direct services to units in the Eastern States.

The Department of Promotion processes orders for National Dairy Council materials—authentic, up-to-date, carefully planned teaching tools made available to local Dairy Councils for the purpose of enhancing and extending their nutrition education programs for all age groups. Yes, National Dairy Council materials and their supporting interpretative services are direct services to Affiliated Dairy Council which in terms of both quality and quantity are the exclusive property and privilege of an affiliated Dairy Council. During 1955, the total discount on N.D.C. materials to affiliated Dairy Councils will more than offset the relatively small difference in affiliation dues.

Fourth on the list of direct services to Affiliated Dairy Council Units is that of providing current facts. Media used to this end include "special mailings" of current facts about the new Special School Milk Program, new N.D.C. materials, and reprints of articles pertaining to both the dairy industry and the Dairy Council program of nutrition education.

The National Dairy Council Reporter, covering important aspects of National meetings; the Dairy Councilor, Nutrition News, Dairy Council Digests, Food News and Menu Guides are examples of media used to help local Dairy Councils keep up to date on current facts about many related subjects. The Planning Ahead Brochure is a special mailing transmitting current facts to both the local Dairy Council and the National office. Time does not permit the enumeration of all the ways used to render direct service within this category.
Conferences:

The Department of Affiliated Unit Service has special responsibilities associated with the pre-service and in-service conferences designed to give direct help to Affiliated Dairy Councils—the Winter Conference—the annual meeting of the industry members of Dairy Council and the Executive Directors; and the Summer Conference—the Workshop Sessions for Executive Directors, their staff members and representatives from local Boards of Directors.

In 1955 there will be four N.D.C. 40th Anniversary Regional Conferences conducted by the National Dairy Council instead of the usual Summer Conference in Chicago. They are to be held in Denver, Detroit, Hartford and Roanoke.

Individual conferences held during both meetings as well as at the time of service visits to units purport to give direct service to Executive Directors and others concerned.

Training courses are a series of conferences conducted by the Department of Affiliated Unit Service and others at National Dairy Council to orient new Executive Directors, Assistants. Day also consists of conferences through which direct service is given.

The value of the unique qualities of direct service through correspondence cannot be over-emphasized. All correspondence between National Dairy Council staff members and Affiliated Dairy Council Units is reviewed by the Department of Affiliated Unit Service. We expect to increase the effectiveness of this service.

The Dairy Council, with its headquarters in Chicago radiates out to all sections of the country. It operates in every market in America. Affiliated DC units reach 65 million people daily in eighty-two markets. The effectiveness of these plans rests squarely upon all of us who have elected to call ourselves Partners in Progress. Each Executive Director knows it is all in knowing how to work with community leaders in professional, educational and community groups to extend effective nutrition education which will motivate the American family to use enough milk and other dairy products throughout life.
"ADA IS RIGHT"
Don Manchester

If you believe you detect a slight bit of nervousness up here, I would just like to inform you that you are probably absolutely right.

You will agree with me, I am sure, that most of the things we are a little bit afraid of most, are the things we don't have adequate confidence in; most of the things we don't feel we can believe in, are the things we least understand.

We are all a part of a team. We all have a common objective. And that is, to further the sale of dairy products. These are the people who make it their life job to publish magazines, and to run radio stations and to run television stations and to publish newspapers and to run outdoor companies, and to run them intelligently and economically and efficiently so that the things you people decide to do, the things you decide we should help you do, can be done as efficiently as it is humanly possible to do it. We are all a part of that team.

You have heard a lot about what ADA has done and is going to do. I think for just a second here, we should take a fast look in some detail at what has happened in this ADA picture over the years. Why it has been as successful as it has.

Up until this last year or two, ADA has never had really good and adequate sums of money with which to do the job they were supposed to do. But, despite that fact, because of ingenuity and inventiveness and good, basic intelligence in advertising and marketing, your association with your help was able to take these very modest, and I say very modest advisedly, because relatively they are very modest sums of money, and to use them to spearhead certain activities which brought about certain results.

I only have to remind you of the spearheading job that was done with very modest sums of money in the cheese business. It was ADA with its $25,000, its $50,000 budgets on cheese, that brought about primarily, through its inventiveness and ingenuity, the concerted efforts that you see today in the cheese business by people such as Kraft, Borden and numerous others. Those people, because they were attracted to the kind of ideas, the cheese festival type of idea, the selling event type of idea, that ADA proposed, put into and behind these cheese selling activities, hundreds of times the number of dollars that ADA ever could have afforded. And that has been true with a number of other categories.

You cannot possibly sell this product of yours, these dairy products that your producers produce out there and send to the market place, unless you are competitive in that market place. For example, how can you sell a beverage, milk—and 50 percent of the milk that is produced is consumed as beverage—how can you sell that with $25,000 or $50,000 worth of advertising and sales promotion, when you are bucking budgets, competitive budgets such as Coca-Cola, who consistently, year in and year out, have, and will continue to spend fourteen or fifteen million dollars a year against the consumer, building consumer habits, chasing them away from one product, bring them over into the Coca-Cola market?
As somebody said the other day, there is just so much room in the human stomach and that is what we are doing in this business, is competing with dollars, fewer perhaps than we should have, competing with dollars against people who have a tremendous starting advantage over us in terms of the number of dollars available.

As a matter of fact, in the beverage business, as a whole, there is spent probably close to seventy-five million dollars a year on soft drinks alone, promoting those drinks to the consumer, and in the beer business, a hundred to a hundred and twenty-five million dollars worth of consumer advertising on beer, competitive to some of our products.

I am going to talk about milk in some detail here for a moment because I believe it is pertinent. I believe it is a job, the doing of which we are just embarking on. We are just beginning, and I think it will help you people to understand how we do these things if I tell you just a little bit about this milk problem as we saw it, and incidentally, I am not a farmer. I don’t know anything about the dairies or the dairy business, relatively. You fellows know much more about it than I do, and I have heard people get up sometimes in front of groups like yours and in front of groups of people like producers of milk, and I have heard them make claims, to say to these people that they should be the ones who guide the marketing of these products because they produce the milk. Nothing could be more wrong.

This job for ADA is so big and so complex that the only way it will be done efficiently and satisfactorily is if the job is divided up into segments and the people are given the responsibility for those segments in the dairy production, but we do consider ourselves authorities, honestly consider ourselves authorities in the business of selling goods to consumers. We know about the consumers to whom your producers are trying to sell. So, let’s talk about this milk thing for a minute.

You know the figures. You know what has happened to per capita consumption in the last ten or twelve years. It is a sad picture. You also know, I am sure that the principal reason that has happened, there is no other reason, is because we have not been adequately competitive in the market place for a fair share of that consumer stomach.

Three years ago, we looked for the first time at a brought-together volume, a digest of all the facts about milk. There were some 665 pages in that book and they were all of the pertinent facts from all over the world, authoritative opinions of the American Medical Association and everybody else who had done anything of consequence to find out the goodness of milk—those facts were there.

Well, I will tell you a funny thing about that information. Those people to whom we were trying to sell this product already knew it. They already knew it. There isn’t a consumer, a potential consumer in America who won’t agree with you wholeheartedly that milk is a wonderful, fine thing to drink. They will further tell you as we found out in surveys, to the tune of about 277 different reasons why milk is a good thing for you. But, despite that, despite the knowledge of the goodness and the worth of that product, people were drinking it less and less.
Why? One very simple, fundamental reason. We did not have the adequate tools to say things to these people often enough, competitively enough, so that we would make them want to drink milk. So, we developed out of these 655 pages some 20 basic benefits of milk, and from those we distilled them down to some four or five, and I am sure you have seen all of the proofs of the ads.

Now, the difference between those ads and any milk ads you ever saw before in your life, was a very fundamental, simple, little difference. We promised people in those ads, the things they wanted and told them they came from milk. We did not say in those ads, milk is loaded with calcium and calcium is good for your bones. We did not say anything like that in those ads as far as the basic appeals were concerned. What we did in that advertising was to determine that what people wanted in connection with milk was exactly the same thing they want in connection with anything else. They want to look good, they want to sleep well at night. They want to feel rested and full of pep. They want to live to a ripe old age, full of energy and vigor and so in that advertising, we attempted and I think on the basis of the record with which you are somewhat familiar, we have succeeded in attacking these people on an emotional basis—we are attacking their emotions and then fortunately for the milk business, there exists a situation which exists in probably no other category of food, the justifications for those emotional decisions are already well known and well accepted by the consumer.

What we have to do and what we are trying to do, and I think with reasonable success, we are doing it, we are saying to the people, here is the emotional reason why you should want to drink milk. You should want to drink milk because you will sleep better. Everybody has a problem of better-looking skin. You should want to drink milk because you will have a better-looking skin. You should want to drink milk because you won't feel so tired and restless. You should want to drink milk for a dozen emotional reasons, and I repeat, the most fortunate thing for any category of food in the world—they already know and believe in the justifying reasons. They already know. They already know it has lots of calcium. All we have to do is say that calcium means a fresh skin, less tiredness and so forth and so on.

Now, does this kind of approach work? Well, I can only say this, you are just as familiar with the results as I am; more so. This new sales technique in connection with milk has rung the bell.

We can tell you, however, that since we know, and I am sure you will agree with us, that the business of drinking more milk is a business that goes on between the person's ears, not out here some place, but between that person's ears, an emotional decision, that when you measure changed emotions, changed thinking, changed conceptions about milk, you have the real answer. I don't know whether you are familiar with the facts or not, but over in Rochester, for example, we did what we call a before and after research job on this milk advertising. We measured certain conceptions about milk before the advertising started and then after the advertising had been under way. We measured those conceptions about milk again then and in two short months of time, some pretty remarkable things had happened to that collective Rochester mind.
For example, prior to the running of this advertising on a highly concentrated basis over there, about 11 or 11½ percent of the people in Rochester said they drank as little milk as they could get away with because milk was fattening. One of the principal reasons why people don't drink as much milk, at least a goodly share of them, is because they think it is fattening.

After two months, where we said in advertising, print and television, that milk was not fattening, that actually milk was the way to reduce, three glasses of milk a day about which they built their reducing diets, at the end of two months, the percentage of people who did not drink milk because they thought it was fattening, had changed to 2½ percent.

This thing works. I have never in all of my experience in this business, which goes back over 23 years, seen more careful testing and more careful analysis of what should be done with the producer's money than I see in the American Dairy Association. Never has a nickel apparently been spent, at least this is true in very recent years that I am familiar with the record, without a thorough adequate testing in the market place on consumer research before that project is followed through on, before more real important money is put behind it.

We believe, we sincerely believe that you cannot solve these problems such as how to sell milk unless you do it that way.

First, in the consumer who is supposed to buy your product, and this goes not only for milk, but every category of dairy food, the same set of consumer brains makes the same decisions about food in exactly the same way, using the same processes as the decisions are made for every other category of product that is made and consumed, either used, eaten, thrown away or what-have-you. Just one set of brains. They don't change their signals for making one set of decisions in the food business and change them to make another kind of decision in the cosmetic business.

I see there are two or three ladies here. I don't know whether or not they know how much it costs to manufacture a dollar lipstick. I am going to assume that they do not. I am going to tell them that the contents and case of that dollar lipstick, even the best you can buy, is not more than about 15 cents, and 85 cents of that $1 goes into something else. Most women, I am sure, know that lipstick costs a lot less than a dollar to make. Has that every stopped one of them from buying it? She wants what the lipstick will do for her and that is true of every kind of decision to buy or to use, every kind of decision that any of us have ever made about parting with some of our dough.

I will tell you a little story about how important it is to understand those things. We have all heard of General Motors, I am sure. General Motors has continued to increase its share of the automobile business year after year, for a good many years now. The reason they did that was because of a decision, a fundamental corporate policy decision that they have reached many years ago.

There used to be a fellow over there—he has passed away since—Buck Weaver, Vice President of General Motors who was labelled Vice President in Charge of Research. But, like our friend, Mr. Politz, he was a better
psychologist and a better salesman and all of the rest of it, than most of us, and I think that is what made him a good research man. Mr. Weaver, after looking at years of research, said to the corporation, we have been advertising and promoting, particularly have we been advertising wrong. The way to increase our share of take from the consumer dollars that would go into the automobile business is to be sure that our turnover of customers is lower than anybody else in the business.

It makes sense. The directors all nodded their heads. They said, "Great, how do you like it?"

Mr. Weaver said, "This is the way you do it. You recognize the fact that everybody who buys an automobile bought it as the result of an emotional decision. He decided he liked the looks of the car. He decided it would look wonderful outside of his garage. He decided it was better than the guy across the street could have, and so forth and so on. Then, after he went and bought it, he spent the next year trying to rationalize that decision," and he proved it to them in a very simple way.

He showed them that the very best readership of Cadillac advertising, for example, is from the guy who bought one the day before yesterday, and he is searching for justification for rationalization for an emotional decision. So, that is what they do and that is what General Motors has done for years and in all the ads they write, they are written by those writers and conceived by those sales promotion people as pointing specifically at the guy who just bought the car yesterday. And that is the lesson in this milk thing and that is the lesson we will have to learn in the butter thing, and I think we are on the way to learning it, that we have to make these people make an emotional decision and then we better be darn sure that they have all of the factual justifications that they can say that was a very smart decision of mine to buy milk and drink it, or a smart decision of mine to buy butter and use it on bread.

There is a mistaken idea in this business that all you have to have is a personality and he gets up in front of people around the end of the medicine wagon, and he says, "this is a great product. I like it, you like me, eat it." It doesn't happen.

Now, if a guy is a pretty good pitch man along with it, you have got two pluses. But unless that pitch man is intelligent enough to stick to the script, to understand what has to be said to people, to make something happen in their minds, he is absolutely valueless.

Mr. Hope, on the radio is going a fine job for ADA. I remember Mr. Hope, ten or twelve years ago, when he was on the air for Pepsodent. I think he mentioned it in that film, if I am not mistaken. And I remember how we felt about Mr. Hope. We felt that this guy, being the top entertainer in America, getting into more homes than anybody else, ought to automatically solve our problems on Pepsodent toothpaste. Did he solve them? No, because the guy wouldn't use the words, wouldn't say the things we wanted him to say. And despite his popularity, Arthur Godfrey or no one else has ever equaled it in America as an entertainer, Pepsodent sales never went up a nickel's worth in seven or eight years and finally they had to shell Hope out. He explained that the other day on the film.
So, it is not a question of having a personality who endorses your product or your services. It is a question of deciding what has to be said to people, and if a guy can speak the English language so that people can understand him but they never saw him before in their life, and he says the right things to them, he will sell more toothpaste than the most popular guy in the world who says the wrong things to them.

We want people who are intelligent enough and interesting enough to get the audience around the end of the medicine wagon and then have enough brains to say to the people what we know should be said and not to depend upon the personal popularity of those characters to do the job for us.

Now, another question you people have probably faced is the question of national versus local advertising. I think that is best answered and most intelligently answered by talking to you for just a moment about the economics of the thing. Let me first make this point with you, that if we have the right selling words on fluid milk, for example, and if they influence people in Long Island or Rochester, New York, or LaCrosse, Wisconsin, or Seattle, Washington, or Flint, Michigan, those words will influence people where the product is right and available, will influence people in exactly the same way, no matter where they are said in America.

Now, I ask you this question, why should a local producer group insist on spending its fluid milk money in a market when they pay a terrific premium price for the privilege of doing so? If they want to sell fluid milk in greater quantities—and I think we have several instances of that happening when this kind of selling approach is used—then the answer to the question is, the job is to get that message to as many people in the market for a dollar as it is humanly possible to do.

Local exposure of those messages, whether it be with television, with radio, with anything, without exception—I will take that back, with no exception with which I am familiar—costs more money per message than to have the same message come in there as a part of a so-called national buy. How much more?

We have got all kinds of figures here. You are going to hear about them later. There are comparisons of LaCrosse, Madison, Townsend, Texas, out in Oregon, New York State, Michigan all over, which compares with what you get for a dollar in advertising in a market when you buy it locally as against what you get for that dollar when it comes in there as a part of the circulation of a Sunday supplement, a network radio show, a network TV show, or a magazine. There is no comparison in the relative efficiency of those dollars.

Now, I can tell you from territory knowledge and experience, that when people like Proctor and Gamble decide to market a new product, let's assume it is Tide Detergent, and they are going to test market this product in the Los Angeles market, they have a formula. Now, when they are going to test market this product this product in Los Angeles, their formula says they should test market under the same conditions that the product would face and take advantage of if it were a nationally advertised product. And it should be quite illuminating when I tell you that their formula in no market in America is less than two and a half times
the dough that would normally flow into that market if it were a nationally advertised brand. I mean, if they are testing Tide in Los Angeles, and Tide would get $100 worth of advertising from a national budget, when these tests were made there, they would put in $250 of advertising. Why? because the local dollar is that much less efficient in that market than the so-called national dollar. The economics of the thing don't make any sense.

One more thing. Probably you have been asked questions, and I am sure you must have, about why don't we get the newspapers, why don't we have the newspapers straighten out all of our problems for us? All we have to do is get that press and that radio and that television to tell these consumers what great guys we are and how we are not gouging them, and then again, they will say, we like these fellows again, we will buy more of their product. That is ridiculous.

These consumers, just like you and me, have got a certain number of brains and we have a certain instinctive and automatic way of evaluating the things of importance to us, the things that are most important get most of our time. The things of no consequence get none of our time.

I ask you to imagine a truck driver's wife sitting around in the kitchen, telling her family, "well, from now on, we are going to buy a little less butter because we think these farmers are getting too much; they are a little unfair, they are not very nice gentlemen, and so on".

That is the most ridiculous chain of thought I ever heard of in my life. Those people don't even think about the dairy farmer. Politz research reports that about 3½ percent of the consumers in America felt that the dairy farmer was getting a little bit more than his fair share out of this economic situation of ours. Which percent incidentally, was exactly the same as the beef farmer and exactly the same as the wheat farmer--3½ percent of the people. The rest of the people apparently don't think about it ever. They won't even take the time. It isn't of consequence.

I can assure you, I can't assure you from personal experience, but I can assure you from what I have heard from the experts that a larger percentage than 3½ percent of the people who are married in this country, think marriage is a lousy institution. And I don't think that we would say that the institution of marriage has a public relations problem.

We in the dairy industry have a public relations opportunity and responsibility, but no critical problem. Thank you very much.