NORTHEASTERN DAIRY CONFERENCE

REPORT OF THE
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ANNUAL MEETING

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MARCH, 1959
24th Annual Meeting
NORTHEASTERN DAIRY CONFERENCE

Statler Hotel, Washington, D. C.
March 25 - 26, 1959
24th Annual Meeting
NORTHEASTERN DAIRY CONFERENCE
Statler Hotel, Washington, D. C.
March 25 - 26, 1959

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The Northeastern Dairy Conference is not a policy-making body. We neither pass resolutions nor attempt to influence legislation. There is no continuing administrative staff to function during the year. Strictly speaking, the only accomplishment of the organization since our adjournment in Baltimore on May 2, 1958 has been the activities of your officers and program committee in arranging for the two-day session that starts this morning.

Broadly speaking, the accomplishments of these Conferences are numerous and are important to all of us who participate in them. At these meetings we have an opportunity to get the facts on many matters of mutual interest. Panel discussions have brought forth differing points of view and, through discussion following these talks, we gain a broader understanding of the problems which face us in our daily business lives.

This world of ours is getting smaller. No one attending this meeting in our national capital is more than a few hours' travel time from home. This same statement would be true if this were a national convention held in the same place. No section of this country is geographically isolated from the rest of the nation. Everything we do in the dairy field is influenced by the country as a whole.

Our program for this Conference is indicative of this broadening interest in the way our dairy economy in the Northeast fits into the national picture. This morning the Dairy Outlook Panel will discuss both the national and northeastern predictions. Just a few years ago I would have been keenly interested in getting the outlook for Boston with a passing interest in the general picture for the Northeast.

There are rather marked differences in the dairy outlook here in the northeast as compared to those held in the midwest. This afternoon we will have a friendly discussion on that subject which should aid greatly in attaining a better mutual understanding.

It is entirely appropriate that our principal speaker at this Conference will be the Honorable Allen J. Ellender, Sr., Chairman of the Senate Agricultural Committee.

Tomorrow morning we will be hearing from experts concerning the principal differences between cooperatives and proprietaries and from the legal standpoint. It is hoped that all of us will leave this Conference better informed upon many matters of great importance to us.
Our cooperatives succeed as a result of a group of people working together effectively. People are of extreme importance in the effective operation of this Conference. My own participation in Conference affairs is limited to the past five years. During that period the friendships built up with other members of the Conference have been of great value. All of us feel less restrained in asking questions of a friend in another city than in discussing the same points with local people where competitive pressures are always a problem. During the past year I can think of numerous instances where people in this audience were particularly helpful to me. I can think of others, though unfortunately less numerous, where I was in a position to be helpful.

It has been a great pleasure to have served as your president during the past year. I sincerely hope that the program that will follow will represent another successful milestone in the progress of the Northeastern Dairy Conference.
The dairy industry has broken several records in recent years. Milk production per cow increased to a record high of 6,330 pounds in 1958. This increase in milk production per cow is a continuation of what has been going on for several decades, and there appears to be no letup to this increase in milk production per cow. Rather over the past two decades the increase in output has been accelerated. In successive 5-year periods beginning with 1935-39, production per cow increased 2.4 percent, 5.7 percent, 7.4 percent, and 8.9 percent. For the four years 1955-58, the increase was 11.2 percent. This upward trend in production per cow is partly due to larger productive capacity and increased quantities of feed concentrates fed to dairy animals.

The feed situation was exceptionally favorable for milk production during 1958. Stocks of feed grains had been building up over several years and have set successively new highs. The carryover as of October 1, 1958 was about double the carryover at the same time in 1954. Production of feed grains set a new record high in 1958, and a further sharp increase in stocks will result during the current marketing year.

Milk production in 1958 was slightly less than in 1957. This decline followed five years of increase during years when feed supplies and price relationships were less favorable than in 1958. The principal reason production did not increase in 1958 was the rise in prices for cattle, calves, and hogs during that year. For both cattle and hogs, marketings for slaughter were reduced in order to build up herds. The reduction in the quantity of meat produced led to substantially higher prices to farmers for both beef cattle and hogs. This development encouraged many farmers to cull their herds more closely as the advance in beef prices provided a convenient means to upgrade their herds rapidly.

Indications point to a slowing up in the rate of decline in number of milk cows during the closing months of 1958. With the price of hogs likely to run considerably lower this year than last, and the price of beef cattle likely to be more nearly stable than in 1958, meat animal prices will not have the downward influence on milk cow numbers that they had in 1958.

What happens to total milk production during the next few years may well depend on what happens to milk production per cow. Milk production per cow will depend upon the rate of feeding, which in turn will depend upon feed supplies. Feed supplies available for dairy cattle may well depend on Government policy with respect to feed grains. This is one way that the national dairy outlook may be dependent on what the Government does.
Consumption records, as well as production records, were broken in 1958. Consumption of all milk products from commercial sources totaled 113 million pounds in 1958, or 658 pounds per person, a new record low. Despite these two records — highest production per cow and lowest per capita consumption — total production and total consumption were in reasonably close balance, and Commodity Credit Corporation's uncommitted inventories of dairy products at the end of 1958 were low.

The favorable year-end situation resulted from: (1) a decline in the number of cows milked and (2) a substantial consumption of dairy products as the result of Government programs. These programs resulted in both increased civilian and military consumption. Civilian distribution from CCC supplies, together with the two school milk programs, accounted for the equivalent of over 6.1 billion pounds of milk, or 36 pounds per person. This 6.1 billion pounds included 2.6 billion distributed as butter, 1.4 billion distributed as cheese, and 1.1 billion in the special milk program and 1.0 billion in the regular school lunch program.

In addition, about 1.1 billion pounds was consumed by the military as a result of special programs. This was divided about equally between butter and fluid milk.

This total additional civilian and military consumption of about 7.2 billion pounds added to the total civilian and military consumption from commercial sources of 114.8 billion pounds, gives a total consumption of 122.0 billion pounds. Of this total of 122.0 billion, about 7.3 billion or almost six percent was associated with special Government programs to increase the utilization of dairy products. This is another measure of the influence of Government on the national dairy outlook.

Legislation enacted since 1953 that affects dairying has been primarily legislation to increase the utilization of dairy products. The Agricultural Trade Development and Assistance Act of 1954 gave CCC authority to pay reprocessing, packaging, and handling costs on dairy products donated to Federal, State, and private agencies. The Agricultural Act of 1954 provided for the Military and the Special Milk Programs and for donations of dairy products to the Administrator of Veterans Affairs and to the Secretary of the Army. On July 1, 1958, authority for the Special Milk Program was extended through June 30, 1961. In 1956, the Soil Bank Act gave CCC authority to donate food commodities to certain Federal and State correctional institutions. The Agricultural Act of 1958 extends the Veterans and Armed Services Milk Program and CCC's authority to donate dairy products to the Veterans and the Armed Services and adds the Coast Guard and the United States Merchant Marine Academy.

Another record broken in 1958 was the number of Federal Milk Marketing Orders in operation. In early 1959, there were 77 such orders. These orders covered 190,000 producers and 37 billion pounds of milk. Thus, about 30 percent of all the milk produced in the United States was covered by Federal Milk Marketing Orders. About one-half of the non-farm population of the United States resides in areas covered by these orders, and it is estimated that 50 percent of the non-farm consumption of fluid milk is covered by these orders.
Two circumstances in the current dairy situation could be of considerable concern to dairy farmers. One is the record low per capita consumption of dairy products. This record low per capita consumption prevailed, even though cheese consumption was helped by the increase in the retail price of red meats.

Despite the cooperative efforts of dairy farmers to promote the sale of dairy products, it is obvious that the dairy industry has a long way to go in holding its own and to start building per capita consumption to higher levels. The disappointing per capita consumption of 1958 suggests that research to determine whether it is possible to build a successful promotion and merchandising effort for an industry that is unwilling to organize its production is desirable. Can a sales organization that has no control over production with respect to such things as product produced and quality be expected to be successful? Is it necessary to organize the production of an industry before a successful sales program can be accomplished?

The second circumstance that might be of concern to dairy farmers is the rather extensive effect the Federal Government has had in the dairy industry. This was discussed very effectively by Dr. William C. Welden of H. P. Hood and Sons, last December at the convention of the Milk Industry Foundation. Dr. Welden, an ex-bureaucrat, has been away from Government for some time, and I will close by reading the last few paragraphs of his discussion.

"Milk production is also a very slow moving industry, in the same way that demand for milk products is fairly slow moving and relatively stable. The net result is that normally we do not find ourselves in a position of gross oversupply or of great shortage. If we did, we would have some pretty wild price fluctuations, or we would have government intervention and control.

"The latter, seems to me, is the much more likely. The Government just almost must intervene to prevent a war-created milk surplus of 10 percent from depressing the farm price of milk by 30 percent — or a surplus of six percent from depressing farm prices by 18 percent. By the same token, the Government just almost must intervene, as it did in World War II and in the Korean War, to restrain the price increases which would otherwise have taken place when the demand for milk products jumps up so suddenly and the milk supply just does not respond that quickly.

"The Government actually has intervened, of course, in the last few years to cushion the price impact of our postwar surpluses of milk. It is probably fair to say that over the past five years the price of milk has been higher by 10 to 12 percent because of this government action. It is equally fair to say that milk supply may have been held at a level four to five percent higher because of this price action on the part of the Government."
"In the future, I have no fear of a real milk shortage or a real milk surplus. Our industry is growing more and more stable so that aside from a big war or a big depression, neither a big surplus nor a big shortage is in prospect. If perchance we did have one or the other, the Government would certainly intervene. The Government would not allow a 10 percent milk surplus to lower dairy farm prices by 30 percent — that's why the Federal Government is buying skim milk powder today. Neither would the Government allow a 10 percent milk shortage to increase dairy prices on the market by 15 percent. That is why discount rates and margin requirements are being raised and stand-by controls are being discussed. Inflation and the cost of living must be controlled.

"There remain only one or two conclusions for this discussion. Our commercial whole milk supply in the United States has inevitably become an economic problem of great interest and public concern. Without the temperance of governmental controls we would have experienced some rather weird price fluctuations in the past few years, and we should expect some more in the years ahead. We do have, however, as a permanent part of our economic life, the temperance of government controls to live with for the future. Government has become so important a factor in our dairy pricing structure, and these pricing policies are so controlling as far as our milk supply is concerned, that we should not worry ourselves about the longer range outlook for milk supply, independently of government policy. What we should really worry about is good government and sound government policy on milk prices."
THE DAIRY OUTLOOK IN THE NORTHEAST

by C. W. Pierce

Professor, Department of Agricultural Economics,
Pennsylvania State University

Both short time and long time prospects are a part of the dairy outlook. Short time developments are perhaps the easier to forecast accurately. However, most adjustments in the dairy industry involve long time considerations. Some short time adjustment in milk production can be made by changes in feeding and by culling. Also some long time adjustments may be either delayed or speeded up by judgements concerning the immediate future.

The safest forecast for the next year is that milk production, fluid milk sales and market milk prices will vary but little from last year. The year to year stability of the dairy industry prevents such a forecast from being far wrong.

Some changes do occur from year to year and these can best be predicted by calling for something like the average change during the past several years. For example, if milk production has been increasing in a majority of recent years, a good forecast is that production will but increase a similar amount in 1959. Likewise, if during the past several years fluid milk sales have increased about as much as total population, it is a good bet that the year 1959 will record a like change.

Year to year changes are not always copies of past performance, however. Such reversals as do occur can sometimes be predicted by accurate assessment of such things as general business conditions, employment, beef prices, costs of purchased dairy feed, support prices for dairy products and the weather.

Short-time Outlook

The past year recorded a business recession and the first serious unemployment in several years. Business activity has been gaining rather steadily from the recession low and will increase further in 1959. Unemployment, however, remains at a rather high figure. In a few areas of the Northeast, such as the coal districts of Pennsylvania, chronic unemployment exists and is unlikely to be cured soon. Consumer incomes as they affect milk consumption will not show much improvement in 1959 over 1958 and will be less favorable than in 1955-57.

In 1958 the number of milk cows in the Northeast decreased for the third consecutive year. Some further decrease may occur during 1959 but the magnitude of the decline, if any, is likely to be less than in 1958. Culling will be less sharp because beef prices will be less favorable.

In most recent years production per cow has increased and this trend undoubtedly will continue. The gain may be less in 1959 than in 1958, if culling is slowed down. Feed prices are not expected to differ much from 1958. The weather as it affects the quality of roughage could either slow down or speed up the increase in production per cow during the coming year.
Support prices for dairy products are now known and will be unchanged from this past year. Thus, prices for approximately at least one-third of the milk produced in the Northeast will be about the same as last year.

In the coming year it is likely to rain either too little or too much and thus produce another normal year with either a large crop of poor quality roughage or a short crop of good quality roughage. If we should get a good crop of high quality, about the maximum year to year increase in milk production would be expected.

Long-time Outlook

So much for the short-time outlook. The longer time outlook is the more important but also harder to predict with any degree of accuracy. About the best that can be done is to examine past and present trends, their causes and the likelihood of the causes being maintained. Unless the reasons for past trends disappear, the trends themselves can be expected to continue. Concerning one thing, we probably can be certain, the rate at which changes occur will continue to be accelerated.

The levels of business activity, employment and consumer incomes are of major importance to the market milk industry in the Northeast. The following remarks about the longer time outlook are predicated on a continuation of business activity around the present level, relatively complete employment and gradually increasing consumer incomes.

Milk Production

Total milk production in the Middle Atlantic states increased 30 percent between 1940 and 1957. Population increased less than two-thirds that amount. The Middle Atlantic states constitute the only important dairy region in the United States where milk production has outrun the population. This area not only maintains a production of milk not needed for fluid uses, but has continuously added to this unneeded production. The New England states, where population has grown faster than milk production, has been an offsetting factor.

According to studies made by the United States Department of Agriculture, returns to dairy farm operators and their family labor in the central Northeast were at a record level in 1957, a level nearly six times the pre-war average and more than ten percent above the immediate post-war period. A correspondingly favorable situation has not existed in the major dairy producing areas of the Midwest.

The improvement in dairy farm operators' incomes reported by the USDA for the central Northeast has been verified in part by studies in Pennsylvania. Waters and Barr at the Pennsylvania State University have reported on a study of dairy farms encompassing the years 1942 to 1956. According to their report, incomes have improved in each area studied, with the greatest improvement occurring in central Pennsylvania and the least improvement in a county in the Pittsburgh Milkshed.
The trend toward more production in the Northeast undoubtedly will continue as long as favorable prices are maintained and farm reorganization permits reductions in production costs.

**Size of farms**

All production statistics point to the growing size and increasing specialization of milk producing units. Continuously, fewer farms furnish an increasing amount of milk to each of our markets.

This trend toward larger farms is characteristic of our entire food industry. When one observes the increased output per dairy farm, along with such things as the mass production of broilers, the growth of supermarkets in food distribution, and similar developments in other parts of the food industry, it is easy to get carried away in considering the future of the milk producing unit. Recently I observed the following item in a farm magazine, "The day when milk will flow from cow to carton in one continuous process may not be far off. When and if the dairy industry becomes completely integrated, the farmer will probably furnish his cows to cow pools at a dairy plant. Milking machines could than be connected to processing facilities. Milk would go through a continuous machine process, winding up in gaily colored consumer packages."

Obviously, the man who wrote the preceding quotation has an imagination but he may be lacking facts. I am less impressed by such statements and by integration in the poultry industry than I am by the farm management studies made by our economists. The forces that to date have been causing an increase in size of dairy farms do not seem to be such as to cause the development of factory farms in the Northeast. Going back to the Waters-Barr study at Penn State, this quotation is found in the summary of the report, "Fewer and fewer farms remained in the business of producing milk. Accompanying this decline in numbers was an increase in size, in terms of acres operated, numbers of cows kept and total output of milk per farm. Significantly, this increased size of operation had been realized with a reduced labor force. Substantial increases in capital invested in all phases of the farm business, particularly in equipment, have made this possible. While the trend is toward fewer but larger farms with greater capital requirements, these Pennsylvania dairy farms remained family-operated businesses. Thus far, apparently, the increase in size has resulted primarily in more efficient, family type dairy farms."

The conclusion seems rather obvious. The trend toward larger farm units will continue as additional farmers either drop out of production or make adjustments to known techniques and to yet to be developed techniques that permit the substitution of capital for labor, thus, permitting the operator of the family farm to become more efficient. At the present the family type of farm operating with a minimum of hired labor has all the advantage. As yet, there is little to indicate that factory farms using 40 hour a week labor and paying fringe benefits are a part of the immediate future.
Production per cow

Production per cow will certainly continue to increase as fewer but larger farms provide better management, better stock and better roughage. Although milk cow numbers have declined in the Northeast in the past three years, the area nevertheless is one of the few where cow numbers are greater now than 25 years ago. Whether or not the increase in production per cow will be offset by declining cow numbers in the future will depend on the relative favorableness of milk prices and the opportunity yet remaining to reduce production costs.

Marketing

Although many changes have occurred in the assembly, processing and distribution of market milk, the industry remains rather localized, gathering milk from nearby production areas and making frequent deliveries to wholesale outlets and consumers' homes. At the Northeastern Dairy Conference in Philadelphia in 1956, according to the published report, Joe Eastlack proclaimed twice a week delivery as a necessity if labor were to be used efficiently enough to maintain home delivery. I believe the speaker said, in an aside, that one day a week delivery is possible and probably a future necessity. This seems to me to be typical of the continuously increasing number of opportunities to increase output per unit of labor in all phases of the market milk industry. Cost reducing changes in the assembly, processing and distribution of milk are in part responses to the pressure of increasing unit wage costs and are made possible by technological developments that both reduce the bulk and perishability and permit the substitution of capital for labor.

Specific technological changes range over such wide developments as bulk tanks on farms, modern highways, refrigeration and light-weight single-use containers. End results include fewer and larger firms processing milk, less frequent deliveries, a large proportion of wholesale sales, distribution of milk over wide areas from a single processing plant and more flexible movement of raw milk from farm to assembly point. The trend is to wipe out boundary lines of both marketing areas and milksheds.

These same developments should permit a much needed closer adjustment of milk production to fluid milk sales. If we get anything like factory farms in the future, the cause may be the need for close adjustment of production to sales rather than the possibility of increasing labor efficiency in milk production.

Pricing

The Northeast market milk industry has had the natural protection of a bulky and highly perishable product. With no close substitute available, consumers have had to depend for beverage milk on local production and local processing. In doing so, consumers have had to pay the costs of maintaining such an industry. No one knows when the local industry will have to compete with a concentrated whole milk brought into our markets from the Midwest at both lower production and transportation costs — but such a development is a real possibility.
Assuming such a development in the future, the market milk industry in the Northeast will have to hunt for cost reductions not only in larger processing firms, in less frequent deliveries and in more efficient farm producing units, but also in eliminating the waste in pricing. Last year in the New York Market, the blend price to farmers averaged a dollar and fifteen cents less than the Class I price which was the basis for pricing milk to consumers. This difference, resulting from our inability to adjust production to sales was equal to two and one-half cents per quart. This inefficiency in pricing is a luxury the industry has been able to afford because there has not been a really acceptable substitute for fluid milk. The far from perfect adjustment of production to sales, resulting in Class I prices as much as 25 percent above the producers' blend, cannot be tolerated when and if the region has to compete directly with an acceptable substitute available from areas of lower cost milk production.

Summary

The dairy outlook in the Northeast depends on the future levels of business activity, employment and consumer incomes and on the ability of the industry to make adjustments to changing competitive conditions.

In recent years many adjustments have been made in milk production and in processing and distribution. Changes of this type will continue and probably at an accelerated pace.

Unless we keep in mind the causes of past changes, it is easy to overestimate the effects of these changes on the organization of production and distribution of market milk. On the other hand, a new factor may be added in the future if a concentrated milk is developed as an acceptable substitute for fresh whole milk.
A DISCUSSION OF DR. C. W. PIERCE'S PAPER ON
"DAIRY OUTLOOK IN THE NORTHEAST"

by Paul E. Hand
Assistant Secretary-Treasurer
Interstate Milk Producers Cooperative

I wondered what kind of enthusiasm businessmen would have for outlook work in general. The answer came to me from the March, 1959, issue of our monthly publication, the Inter-State Milk Producers Review. On page 8 the following advice is given, "Never mind the business outlook. Just be on the outlook for business."

Although Mr. Willits and I were to discuss separate reports, I am going to make one comment on Mr. Anderson's paper. He covers the national situation very well, but draws no conclusions relative to future prices or future income levels for farmers. Instead, Mr. Anderson points out the dependence of the dairy industry upon governmental policy for prices. Since this is a fact, one can hardly dispute it. But if this fact is the absolute case, economists can be of little use on an outlook panel. Political scientists who can predict the actions of the heads of administrative agencies and Congress would be more helpful.

There are none of us here today who do not realize that, whether we like it or not, improved methods of handling, refrigerating and transporting fluid milk are gradually making any market in the United States available to fluid milk from Minnesota, Wisconsin, or Iowa. In this respect, we cannot discuss the outlook for dairying in the Northeast in a vacuum.

Furthermore, personnel in the Dairy Division inform us that in the fluid markets of the Northeast with federal orders, prices must be in line with or in competition with national prices. The policy of the U.S.D.A. has been to establish support levels or the basis for national dairy prices at a "competitive level" or at the level, in relation with other products in our society, which will clear the market place. In view of the present government policy of competitive pricing in the dairy industry, economists are in a position to discuss outlook problems, and can continue to predict prices as long as these prices respond to changes in output.

Having justified our presence and vindicated those who selected economists for this panel, I will now do what I was assigned; that is, rather briefly, to comment upon and to question Dr. Pierce's paper.

He has covered the waterfront, so to speak, and has done an excellent job on the long-run outlook for dairying in the Northeast. To sum up his paper very rapidly, I would say that he asks this fundamental question: "Can dairymen in the Northeast produce milk in competition with Midwestern dairymen if the Midwestern dairymen can sell manufacturing milk in concentrated form for fluid use?" This question has been thrown at dairymen in recent years in a rather candid fashion as though we, who are producing milk for a fluid market in the east, would be the only persons affected.
First let me say that if manufacturing milk producers, in the manufacturing milk regions, can sell their milk for fluid use in concentrated form, it poses problems for fluid milk producers in the Midwest regions as well as in the Northeast — not to mention the higher prices regions to the south of us. The adjustment will be across the board and not confined to any one marketing area.

Dr. Pierce suggests an answer to this question when he points to the difference between the Class I and blend prices in the New York - New Jersey marketing area under Order 27. I think he infers here that classified pricing will be no longer justified and only transportation will become a factor in determining relative values between marketing areas, when concentrated milk reaches fluid markets. As I pointed out earlier, this is about all the Dairy Division recognizes now, so the concentrated milk problem is not as crucial to producers as it may be to processors and deliverymen. In fact, if milk is sold from the shelves in stores, there will be no need for route salesmen or deliverymen and no need for fluid milk bottling plants. For once, maybe, we as producers are in as good a position as dealers and others relative to this "new" product. Dr. Pierce, who probably knows more about distribution and marketing than most people in the dairy industry, has not mentioned the effects of concentrated milk on other segments of the industry. Perhaps he could comment on that?

Dr. Pierce has not mentioned the possible effect that bulk tank pick-up has had and continues to have in increasing the efficiency of production on individual farms and increasing the efficiency of assembling and transporting milk to city bottling plants. Certainly this development has made it possible for some dairymen to increase their production, reduce average costs of production and to hold their own in the face of the cost-price squeeze.

It has been said that "necessity is the mother of invention." Dairymen recognized this and have made many innovations since World War II. The developments that have kept commercial dairymen in business in the Northeast have been improved breeding stock, improved feeds, mechanization in the dairy barn, improved strains of grains and roughages, and the increased installations of bulk tanks. In light of these developments, and to conclude my remarks, I would like to ask Dr. Pierce this question: "Now that a reduction in beef prices within the next year seems probable and, with this reduction, a slow-down in the culling rate for dairy cattle, do you look for a general increase in production and a reduction in blend prices during the following two or three years?" This is a pessimistic conclusion which can be derived from your paper.
A DISCUSSION OF DON S. ANDERSON'S PAPER ON
"THE NATIONAL DAIRY OUTLOOK"

by F. P. Willits, Jr.
Executive Vice President
Borden's Farm Products
New York City, N. Y.

It has always been somewhat of a puzzle to me to know just what to do when one finds himself involved in a panel discussion of a previous speaker's paper. I feel a little like the psychiatrist meeting a brother practitioner on the street and the greeting goes something like this, "You're fine. How am I?"

Sometimes I wonder too if it isn't done to get two speakers expounding on the same subject without offending the other speaker. In that way, if one talk isn't good, maybe the other one will be better. It spreads the risk a little or call it "hedging" if you want. In this case, however, Don Anderson's good paper leaves me thinking that anything I could say would be sounding like an anti-climax. You see, Don was good enough to send me a copy before the meeting so I have had a chance to read it before today. Actually my being here can be likened to needing a fourth for bridge and I can hear Henry Hoffman saying, "Let's get Willits." Whatever it was, I am glad to join with you again for I have always enjoyed attending these meetings. They have probably outgrown the statistical committee stage by now, but in the earlier years I was a member of the statistical committee. I believe our major contribution was to irritate governmental agencies to try to make better data available so we could distort it.

I cannot differ materially with what Don Anderson has had to say. Don has indicated that milk production per cow continues to climb because of better stock and adequate feed. He says the feed supply has been abundant and the lower cost has permitted heavier feeding resulting in greater milk flow. Total milk production, like per capita consumption, is down, and cow numbers is also lower.

High prices for cattle and hogs for slaughter has caused a higher culling rate with consequent up-grading of herds.

Of total milk production of 122 billion pounds in 1958, government activities in disposition of milk and dairy products accounted for about 7.3 billion pounds equivalent or six percent of the total production.

I believe he feels the price of cattle may be lower this year with reduced culling of herds, but production will depend on available supplies of feed and feed prices, probably related to what will be the government policy in regard to feed grains, he reports.

Fortunately for producers, storage stocks of most dairy products except skim powder ended 1958 at lower levels, thanks to the assistance of government. Economic conditions in the country generally seem improved despite unemployment problems in some sections. Production of goods and
services (gross national product) is now estimated for the year, as based on the first quarter figures of some 464 billion dollars — an 11 billion gain over last year as reflected by the last three months of last year. Total personal and disposable income (before and after taxes) were record high in 1958. Average weekly earnings in manufacturing industries reached new record highs as did average weekly hours worked.

These favorable factors, of course, are accompanied by slightly higher living costs which affect agricultural families as well as the urbanite.

It is these consumer dollars that are going to be spent that we are interested in. The dairy industry has a lot of work to do if it expects to obtain an increasing proportion of the consumer's market basket.

This cannot be done by the product alone. Many people will buy milk and dairy products for what they are, without any selling attempts on the part of the vendor, but that is not enough any more. Packaging forms have changed. The packages have been made fancy and the products have been glamorized via advertising media of all types so that when the housewife makes her shopping decision at the store or supermarket, milk and dairy products face many competitive products in vieing for that dollar bill.

Much has been done by producers through the A.D.A. and cooperative market-wide ventures with dealers in keeping the milk story before the public. Proprietary handlers and cooperatives independently have spent large sums in advertising. Personally, I don't feel that this activity can be stopped without losing sales position to other foods, and we must be in a position always to fill the demand that has been made.

I do not know just what Don Anderson had in mind on page 5 of his talk when he mentioned organizing production and refers to controlling production. Let me quote him:

"Despite the cooperative efforts of dairy farmers to promote the sale of dairy products, it is obvious that the dairy industry has a long way to go in holding its own and to start building per capita consumption to higher levels. The disappointing per capita consumption of 1958 suggests that research to determine whether it is possible to build a successful promotion and merchandising effort for an industry that is unwilling to organize its production is desirable. Can a sales organization that has no control over production with respect to such things as product produced and quality be expected to be successful? Is it necessary to organize the production of an industry before a successful sales program can be accomplished?"

I don't know just what you mean, Don. Do you mean that handlers, cooperative as well as proprietary, do not produce the kinds of products that would make for maximum sales of milk or dairy products, or bring highest classification return to producers, or do you have something else in mind? It has been my experience that whenever a new product was developed or a new sales outlet opened up there was an almost immediate response from the industry competing for the market. Undoubtedly quality and price finally determined who wound up with the business. I can hardly believe that any bona fide need for milk or a dairy product wasn't satisfied on a competitive basis.
Or do you mean by "organizing the production of an industry" producing at the farm level only enough milk day in and day out to meet the needs? If so, then what supply should be considered as necessary? What total milk demands represented for one period are not necessarily the same for another period. Production can't be turned off or on too easily as we all know. If production were to be "organized" on a tight basis then we can expect all kinds of troubles and dislocation of supplies if demand suddenly increases.

Or when you "organize the production" do you mean bring into the fold, for a tremendous advertising program all producers of milk, so that the contribution for such promotional activity is borne by all? With 50 percent of the fluid milk non-farm consumed now under Federal milk order regulation, it seems to me that production is getting pretty well controlled. I can't believe that this proportion of controlled milk will do anything but go up and maybe some further developments will take place to the end that through these orders promotional funds may be made available — at least that's been the talk in some markets.

I think we are all cognizant of one thing — that is, if we as an industry, producers and distributors alike, do not carry on an equally satisfactory promotional program in competition to the purveyors of other foods, per capita consumption of milk can decline further and at a more rapid rate.

It is hard, I know, to sell 75 or 80 cent per pound butterfat compared to ten or 15 cent per pound vegetable oil. The whipped topping mixtures are becoming more prevalent all the time. Look at what's happened to butter.

The vitamin and mineral enriched cereals and other foods have been dressed up and improved to receive favorable consumer consideration. Such manufacturers have spent and are spending tremendous amounts of money to obtain their acceptance. We've got to figure more ways to not only keep our present business but build it to better levels and I believe that's what Don is saying, too.
INTER-REGIONAL PRODUCER PRICING OF FLUID MILK;  
THE MIDWESTERN CONCEPT  

by Linley E. Juers  
Director, Dairy Section  
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For me to attempt to speak for all midwesterners on the topic assigned would, I think, be a little presumptuous in that it would imply that a singular concept of fluid milk pricing prevailed throughout the midwestern dairy surplus producing area. As some of you are probably aware, no such unanimity exists in the midwest. As in fact, individuals and producer groups can be found with views ranging to both extremes on this subject. The concept or opinion which I will present will be my own, bearing in mind that I am a representative of a midwestern producer-oriented group and it is a viewpoint which I have discussed with many of our members and found them to be in general agreement with.

There has been a growing level of dissatisfaction with the prices which have prevailed for milk in the upper Midwest during the past couple of years and along with this dissatisfaction there has been a growing animosity toward the institutions which have maintained somewhat higher levels of price in the fluid oriented production areas. Probably the prime impetus for this animosity has been the simple awareness that Class I prices in many of the deficit production areas exceed $5 and $6 per cwt. with blend prices of $4.50 or $5.00 while producers in Minnesota and Wisconsin are receiving an average of $3.00 to $3.25 per cwt. for their milk. I think most of our people realize that the extra $2 or $3 which producers received in many of these areas is not all profit and that some part of this has to go toward paying higher feed costs and other disadvantages to dairy production in these areas. I think midwestern dairymen are also becoming quite aware of the fact that when they ship milk into these areas, the transportation cost eats up much of the higher prices being paid. The feeling exists, however, that these prices are still relatively more profitable than midwestern prices and that they are being maintained by means of certain institutions which the midwesterners are precluded from using to similar advantage.

Having led into this area I may as well go on to speculate as to whether producer prices are actually more profitable in, say, the Northeast than the Midwest. My own guess is that they are more profitable. I don't have any figures which would show the absolute difference in cost of production in Minnesota and Wisconsin as against New York or Massachusetts because the figures that are available are quite deceiving. It simply is not easy to get reliable figures on costs of milk production because of differences in efficiency on individual farms and because most farms, particularly in the Midwest, don't produce just milk but several other farm commodities in conjunction with milk. In any case there are many incomparable factors and much intermingling of costs making it a difficult job to come up with any uniform type of data. Thus my reason for believing that milk prices being received in areas such as the Northeast are more profitable than the prices prevailing in the Midwest is based on the relative level of dissatisfaction over milk prices which seems to prevail.
in the Midwest as compared with the northeastern part of the country. I know you hear producers complaining about low milk prices wherever you go. But I'm inclined to think in many cases this type of complaining is only a defense mechanism in that producers have to complain about low prices in order to perpetuate the prices they're now receiving. This is a somewhat different case than that which prevails in the Midwest where prices have been continually moving downward and some difficult adjustment problems have developed at the prevailing price levels. This difference is quite amply demonstrated when you get producer representatives from the Midwest and from the Northeast together to discuss prospective price support programs which might be used to increase manufactured milk prices. The representatives of midwestern dairymen exhibit an almost radical willingness to explore any idea which might result in a somewhat higher milk price and net return to dairy farmers, while representatives from the Northeast tend to be almost reactionary in not wanting to disturb what we've already got. If their prices weren't already more profitable than those being received by midwestern dairymen, I'm inclined to think their attitude would be somewhat more liberal in looking for alternatives which might improve the present level of prices.

I think most people in the Midwest are also somewhat familiar with the mechanisms whereby prices are maintained at higher levels in the deficit production areas. Most of these methods have been tried or are in use in the Midwest but unfortunately with a much lesser degree of success. The federal order program, state milk control laws, and local sanitary regulations are the most frequently cited institutions, though strong local producer organizations should probably also be included on the list. It is also recognized that in most cases it isn't just one of these institutions but two or more being used in conjunction with each other in areas where local demand for milk and milk products exceeds production. The program which has been most repeatedly attacked in this respect has probably been the federal order program. There are some markets where producer prices are administered under a federal order in which the compensatory payments and pool plant performance requirements make it very difficult for outside milk to get in. I'm inclined to believe, however, that the restrictive nature of these provisions is more apparent than real as I think I am safe in saying that if there were any large supply of milk regularly available to these markets at the prevailing prices these provisions would break down in short order and allow that milk to enter. Thus while the provisions of the given federal order may be a short run deterrent to entry, over the long run it has probably been some form of state or local sanitary regulation which has given rise to these provisions under the federal order. By setting high sanitary standards or restricting the inspection of outside milk and thus given a shortage of supply, a price administering program can be used to administer the price upwards.

I am also inclined to think it questionable as to whether the removal of these sanitary restrictions or so-called barriers would appreciably increase the movement of fluid milk into distant markets from the Midwest. I am inclined to agree with the conclusion which was reached in Marketing Research Report #98 of the Department of Agriculture which stated that the removal of such regulations would cause some reduction in prices for about a fourth of the producers in the country but probably would not result in
a significant increase in the amount of interstate milk shipments. Given
greater freedom in the interstate movement of milk, I think there is room
for Class I prices to fall and meet this competition, destroying the in­
centive to make shipments into these areas. This, of course, gives rise
to the question as to whether this reduction in price would cause a down­
ward reduction in the amount of milk production in these areas. But this
too can be a shaky limb to hang on as our experience in the Midwest has
not indicated that lower prices necessarily will reduce the level of pro­
duction. To be sure we have experienced some increase in the rate of
farmers exiting from milk production but the rate of increase in produc­
tion on those farms remaining in production has been even greater and
total milk production has continued on the incline.

I'm inclined to think that the real problem which faces the midwes­
tern milk producer is not that of being cut off from shipping fluid milk
to distant markets so much as it is the aggregate effect of the price
administering institutions as they affect the general dairy surplus
problem. There is a tendency in many of the higher price markets to
price the surplus milk at a level somewhat lower than that prevailing
in the manufactured milk areas and at a price considerably lower than
local producers would be willing to produce it for. This practice is
justified in order to facilitate disposal of this milk at prices compet­
itive with midwestern produced manufactured products without incurring
any loss on the part of those handling surplus. Under the market wide
pooling arrangements the producer who brings additional surplus into the
market receives the blend price which is the result of averaging together
the low surplus price and the higher Class I price. The result of this
is that the producers have an incentive to produce surplus milk as long
as the blend remains reasonably high. And it is possible to keep the
blend up by justifying the maintenance of a relatively high Class I
price. The carrying of this surplus milk is justified as necessary
operating reserve. The amount of necessary operating reserve, of course,
can never be precisely determined. The perpetuation of the high level
Class I price with a continued high level of surplus in the market is
generally considered justifiable as long as the total amount of milk on
the market is remaining relatively stable or not increasing relative to
the demand for milk on the market.

This type of pricing is, to my way of thinking, discriminatory and
quite similar to what is known as dumping in the export trades. In
order to maximize returns to the local producers in a deficit milk pro­
duction area, and here I mean deficit in terms of total milk product
consumption, the surplus over and above the higher price class needs
is isolated from that segment of the demand for milk and dumped onto
the market of the manufactured milk producer where the price depressing
effect becomes manifest.

Most of the criticism with respect to fluid milk prices which has
emanated from the Midwest in recent years has been directed at the
federal order programs and I would be inclined to feel that there is
some justification for this criticism in that there is some evidence
of what we might consider undue price advantage existing in many markets
which are under federal order administration. This criticism has been
directed at the federal order program generally but I think more
specifically on certain provisions which are used in the federal programs such as the compensatory payments on federal order milk. I am inclined to feel that some such pricing inequities do exist but I am somewhat hesitant to put the blame on the federal order program itself. As I've mentioned previously I think there has to be some mechanism for restricting supply before a federal order program or any other type of marketing program can administer the price at a higher than competitive level. The federal orders do not contain such a mechanism except insofar as the federal orders recognize the powers of lower levels of government to do so. I think it has also been amply demonstrated that the decisions rendered following federal order hearings are just decisions in most cases and that the hearing procedures in themselves are such as to afford ample opportunity to be heard prior to the making of these decisions. Thus to the extent that discriminatory or noncompetitive pricing is in evidence under federal orders, it is probably the supply restricting regulations upon which we should cast our criticism and in that area is probably where we should seek some adjustments.

It would seem to me that the dairy industry in this country should be subject to the same type of economic rules which are advocated for the general conduct of business in our society—these rules being to strive for maximum efficiency in the production and distribution of product so as to achieve the greatest amount of economic growth possible in the economy. Such research results as we have available, and I will admit they are quite meager, would indicate that the regulations which affect the production and movement of milk are tending to distort the allocation of resources in milk production away from this goal. I would cite here the results of the study published by Purdue University entitled "The Linear Programming Approach to Inter-regional Competition in Dairying." The results of this Purdue study would indicate that the level of milk production in both Minnesota and Wisconsin should probably be higher than it currently is, given our current market for dairy products, due to the comparative advantage of these two states in the production of milk. The study goes on to conclude that Wisconsin and Minnesota should be producing just about all of the manufactured dairy products and that 26 states in the country should probably not even be producing milk for their own fluid consumption. Thus if we were attempting to gain a maximum degree of efficiency in milk production and distribution, the pattern of milk production and the incentives under our various price influencing programs should probably be working in quite a different direction from what they are.

As to what has caused the misallocation of resources with respect to milk production which I have suggested here, I think the answer should put the blame on both ends. First of all, I think we are probably correct in assuming that there has been a strong manifestation of local producer interest in the programs which have provided favorable prices in the fluid milk producing areas. It is only natural that we should expect this to be true as every businessman represents his own interests and tries to gain a competitive advantage when such is to be had. On the other hand, however, I think there is a lot of blame to be case on the apathy of midwestern producers and the midwestern dairy industry for not having done anything to prevent this from happening. A lot of words have been uttered and much emotion generated over the existence of these alleged inequities but not very many of these expressions have found their way into constructive testimony at federal order hearings or legislative committees considering changes in the legislation under which price administering programs are carried out.
I think we in the Midwest are going to have to do a little better job of defining our economic goals in the dairy industry and focus our attentions more specifically in those areas where we have a demonstrable comparative advantage. I am not prepared to state specifically what actions the midwestern dairymen should take to improve their competitive lot in the dairy industry. But I do think we can present a good economic case for some general types of changes. First of all, I think we would be justified in seeking to remove some of the incentive for the production of surplus milk in fluid milk markets which is competing with the manufactured dairy products which are the mainstay of the midwestern dairy industry. Secondly, and in line with reducing the amount of surplus produced for fluid markets, I think we can demonstrate a comparative advantage in making seasonable shipments of fluid milk for higher class usage in many markets where we are not precluded from doing so. Finally I would not expect that we could compete on a regular year around basis, however, in the shipment of fluid milk for Class I usage to many of the northeastern markets.
INTER-REGIONAL PRODUCER PRICING OF FLUID MILK;
THE NORTHEASTERN CONCEPT

by Stewart Johnson
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Having spent 21 of my 44 years in Wisconsin, and 23 in the Northeast, I might be expected to cover either or both viewpoints. However, my Wisconsin dairy experience was all on the farm, my professional and most recent experience has been in the Northeast, so your program committee asked me to handle the Northeast viewpoint, and this I shall try to do.

But is there a "Northeast viewpoint", and is it opposed to a "Midwest viewpoint"? In preparing this paper, a quotation occurred to me that seemed apropos. It goes like this: "Great fleas have little fleas upon their backs to bit 'em, And little fleas have lesser fleas and so ad infinitum." This reminded me of the Midwest complaint of being "bit" by the Northeast's Class I formulas that stimulate milk production and depress butter and cheese prices; within the Northeast, of the New York complaint of being bit by Philadelphia and New England "riding the pool"; in Southern New England, of cooperatives' complaints of being bit by non-cooperative producers who obtain full Class I prices and do not bear an equal share of surplus; and in market-wide pools through the Northeast, the complaint of being bit by producer dealers who are exempt from pooling under certain conditions.

I checked this quotation at our University library, and found a second part, as follows: "And the great fleas themselves in turn have greater fleas to go on, While these again have greater still and greater still and so on." We can work the other way in milk pricing, too, since the Northeast milk price situation can be said to depend on the Midwest situation, and that in turn on the national dairy situation, and that on the national farm situation, and that on the national economy, and that on the world economy, and that on the world political situation and whether we blow ourselves to pieces.

The quotation in full, when applied to milk pricing in the Midwest and Northeast, is useful in emphasizing the dependence of the situation in one area on that in the other, and the common dependence of both on other important factors.

Seven important issues related to Mid-west-Northeast views on milk prices are discussed in this paper. Attention is focused on Midwest-Northeast differences.

1. Availability of milk supplies not inspected for fluid use. Midwest fluid milksheds still can get additional supplies from adjacent manufacturing plants outside the regular milkshed. Such sources are gone in the Northeast. This probably explains in part why the Class I and blend premium over condensery prices has increased over the years in New York but not in Chicago.
In New York State in 1956, only 1.3 percent of milk sales from farms went to plants unapproved for any fluid market. The percent in 1957 was 1.0, and in 1958, an estimate of 0.7. In Wisconsin, by way of contrast, between one-half and two-thirds of milk sales from farms went to plants unapproved for any fluid market.¹

When Class I and blend milk prices increase, the stimulus resulting in increased supplies operates in two ways in the Midwest — one, higher production by farms approved for the fluid market, and two, a shift of farms from unapproved to approved outlets. In the Northeast, the stimulus operates almost entirely in the first of these two ways.

With a sharper supply response in the Midwest, the Class I and blend premiums over condensery prices have not risen so much as in the Northeast in recent years. The Class I margin over condensery prices in the Chicago market was 7¢ per cwt. in 1958 compared with 76¢ in 1940-56. It had gone down a nickel. In New York, the margin was $2.58 in 1958 compared with $1.60 in 1940-56. It had gone up 98¢.

In blend prices, the margin over condensery prices in Chicago last year was less than the 1940-56 average, while in New York the margin had gone up 68 percent. These data and others were presented by Dr. E. E. Vial, Executive Director of the Milk Dealers' Association of Metropolitan New York, Inc., in his Membership Letter of January 12, 1959.

Largely as a result of these wider margins in Class I prices, the New York blend price was $1.04 over Chicago in 1958 and 90¢ in 1957, compared with 44¢ in 1947-56 and 19¢ in 1940-46.

These comparisons are based on prices reported by Market Administrators, and do not include negotiated premiums in the Chicago market that averaged 22¢ per cwt. in Class I prices and 11¢ in blend prices in 1958. Even with these negotiated premiums included, however, (and there have been some in the New York-New Jersey market, too, in addition to the "super-pools" that were included), the conclusion stands that the New York-Chicago price spread has widened considerably during the past few years. A probable reason why this has been possible without causing the percentage of surplus to increase more in New York than in Chicago is the large quantity of nearby unapproved milk that is available in Wisconsin.

2. Regional differences in production changes. Increases in milk production since pre-war, and during the past five years, have been relatively greater in Wisconsin than in New York, or in the Northeast as a whole. Surpluses of manufactured dairy products have not been due in great part to rapidly expanding Northeast production stimulated by high Class I prices.

The detailed data on production changes for each state between 1938-40 and 1958, and between 1953 and 1958, are shown in Table 1 appearing at the end of this paper.

¹Inquiries were made at the University of Wisconsin, and the Wisconsin Crop Reporting Service, but compilations of available data had not been made so as to give an exact percentage. The estimate of one-half to two-thirds was made by a method suggested at the University of Wisconsin, using data on the proportion of milk used for manufacture.
Between 1938–40 and 1958, Wisconsin's milk production increased by 48 percent. That in New York increased by 33 percent. Of the 13 Northeastern states, only one had a greater percentage increase than Wisconsin — and that state was Maryland. For the 13 states combined, the increase was 32 percent, 2/3 that of Wisconsin.

Between 1953 and 1958, Wisconsin's milk production increased by 13 percent. That in New York increased by five percent. Not a single one of the 13 Northeastern states had a percentage increase during the past five years greater than in Wisconsin. For the 13 Northeastern states combined, the production increase during the past five years was six percent, less than one-half that of Wisconsin.

From a Midwest–Northeast standpoint, the outstanding fact is that the No. 1 dairy state, Wisconsin, is increasing its lead — over the Northeast, and over all but four of the other states in the country.

Of incidental interest to the problem under discussion is the fact that the greatest relative production increase since pre-war was in Florida, a plus 236 percent, with Arizona's 81 percent being second. Greatest decreases, of 37 percent and 29 percent, respectively, were in Oklahoma and Texas.

3. Possibilities of marketing fluid milk from Midwest in the Northeast. The Class I market in the Northeast does not offer a substantial marketing opportunity for Midwest fresh fluid milk because Class I prices are not sufficiently high to leave satisfactory profit margins after paying transportation costs.

A few years ago the belief that such opportunities existed was stronger than it is today. In May 1958, however, Truman F. Graf of the University of Wisconsin published an article showing that the Wisconsin price plus marketing costs was competitive with federal order prices in eastern and southern markets only six percent of the time in the three years 1955, 1956, and 1957.2 The other 94 percent of the time the Wisconsin price plus marketing costs was greater than the receiving market prices.

Five months later, in October 1958, Hammill and Cochrane of the University of Minnesota published a report also showing that transportation costs are sufficiently high to discourage milk shipments to eastern markets.3 Using data for the three years from June 1955 through May 1956, the Baltimore market offered a return over transportation costs in only two months of the year, and the Philadelphia market in only three months of the year. The Dallas, Texas market appeared more favorable, with returns exceeding transportation costs in eight of the twelve months of the year.

2 "Do federal or state milk orders act as trade barriers?", Truman F. Graf, Hoard's Dairyman, May 25, 1958.

3 "Are transportation costs the barrier to milk shipments?", James H. Hammill and Willard W. Cochrane, Minnesota Farm Business Notes, October 27, 1958.
In making these comparisons, it should be remembered that the commercial production and sale of sterile concentrated milk is not with us yet. If it comes, and comes in substantial volumes, the competitive disadvantage of the Midwest will be lessened, and perhaps changed over to a competitive advantage.

4. Possible gains to the Midwest from reducing Class I prices in the Northeast. To give an approximate answer to this question, it was assumed that Northeastern Class I prices were reduced by one cent per quart, or 44¢ per cwt. (ignoring the question of what the proper level should be), and the following calculations made of probable effects:

(1) Increased consumption of Class I milk. The price elasticity of demand for fluid milk is about 0.3. The production of milk in the 13 Northeastern states in 1958 was 26,586,000,000 pounds, and about 55 percent was used in Class I. If the retail price decreased from 25¢ per quart to 24¢, by four percent, Class I sales would be expected to increase by 1.2 percent, or by 175,000,000 pounds.

(2) Reduced production. The price elasticity of supply is assumed to be 0.3. If a Class I price reduction of 44¢ reduced the blend by five percent (from $4.75 to $4.50, if the Class II price is $3.15, and the Class I price $5.61 instead of $6.05), the Northeastern supply would be expected to be reduced by 1.5 percent or by 399,000,000 pounds, after sufficient time has elapsed for the full response to take place.

(3) Decreased volume of milk in manufactured dairy products. Manufactured uses took 50 percent of U. S. production, or about 62,600,000,000 pounds of milk, in 1958. If a price reduction of 1¢ a quart reduced manufacturing supplies by 574,000,000 pounds, this would be by 0.9 percent of the total.

(4) Increased manufacturing milk price. If a price elasticity of demand of 0.75 is assumed for manufactured dairy products, the result of a Class I price reduction of 1¢ a quart in the Northeast would be to increase manufacturing prices by about 1.2 percent. If the marketing margin remained constant, this would mean the difference between 75¢ and 76¢ butter in the store, and 60¢ and 61¢ butter at wholesale.

(5) Reduction in income to Northeastern dairy farmers. The amount would be five percent on 26.6 billion pounds of milk. In dollars, the decrease would be about $66,000,000

(6) Increase in income to Midwest dairy farmers. In the six states of Minnesota, Iowa, Wisconsin, Illinois, Michigan, and Indiana, the increase would be about 0.8 of one percent (about 2.5¢ per cwt.) on 48.2 billion pounds of milk. In dollars, the increase would be about $12,000,000. This calculation ignores the effects of price supports. It assumes that under Midwest Class I pricing formulas, the Class I price moves up by the same amount as the manufacturing price, and there is a slight increase in output, in turn followed by a very slight decrease in Class I sales because of the higher price.
The gain in income to the Midwest is much less than the loss in income to Northeast dairy farmers, less than 1/5 as much. This is only a rough approximation, of course, for the secondary effects of higher Class II prices in the Northeast, as well as several other secondary effects, are ignored in the above calculations. Also of importance is the fact that the loss in income in the Northeast is immediate, whereas the gain in income in the Midwest comes in full only when the entire supply and consumption responses occur.

The purpose of the above calculations is to illustrate the procedure necessary to estimate gains and losses in the two areas from Class I price reductions in the Northeast. Price elasticities are rough estimates. Price elasticity estimates are "long-run," with ten years or so allowed for adjustments to changing prices. The entire chain of cause and effect is not traced. Even so, the conclusion is inescapable that losses to Northeast dairy farmers from Class I price reductions in that region greatly exceed resulting gains to Midwest dairy farmers, and also that this would be true of Northeast gains relative to Midwest losses from Class I price reductions in the Midwest. It is difficult to gain income for dairy farmers by reducing Class I prices.

5. Possible use of base-excess plans. Base-excess plans generally are not favored or used in the Northeast, even of an "open type," with new bases made each year. Several large markets in the Midwest — Cleveland, Detroit, Chicago, Milwaukee, and Twin Cities — do use base-excess plans of an open type, and in the Chicago market there is strong sentiment for "closed type" bases.

More specifically, none of the nine Northeast federal orders in 11 Northeastern states — the New England and Middle Atlantic states, Maryland and Delaware — use base-excess plans, but four of five relatively small federal orders in Virginia and West Virginia do use them. Some Northeast markets have used base-excess plans in the recent past — Providence is one — and two markets, Baltimore with open bases, and Virginia markets with closed bases, still use them.

One reason that base-excess plans are not used in the Northeast is the memory of unfavorable experience with them under partial market coverage when used by cooperatives in pre-federal-order days. Another reason is the fear that they constitute undue hardship for young farmers. A third reason is the belief that they will prevent expansion on individual farms, and thus check increased production efficiency.

A differentiation between base-excess plans with open bases and with closed bases is useful for discussion purposes. All sorts of gradations between the two are possible, but for a more clear-cut examination of their effects a comparison of them in their extreme forms is most useful.

The plan with open bases can be dispensed with quickly. It is primarily a seasonal plan, though it has a secondary effect of keeping given milk supplies identified with given markets during the year, and not changing from market to market between seasons or within months. Research at the University of Connecticut shows such plans have little or no effect on total production — the increased output in base-forming periods apparently is offset almost exactly by the holding down of output in base-using periods.
Turning to base-excess plans with closed bases, the logic for their use is that farmers are paid for extra output what it is worth — its value in manufactured uses — and not more than it is worth — a blend price. The logic of the plan rests on firm ground.

If used with closed bases, research shows that the plan can be expected to work best if bases are freely transferable from farm to farm, and no adjustments are made for hardship cases. Also, it seems logical that market-places would be advisable for purchase and sale of transferable bases, and that no concessions be made to small farmers in the way of minimum bases.

Under these conditions, will the plan be an undue hardship to young farmers? On the one hand, it will increase the capital cost of entry, which would be a hardship. On the other hand, once these capital expenditures are made, it will increase incomes.

Will the plan reduce production efficiency? This is also impossible to answer clearly and precisely. With greater capital costs, funds that should go into improved technology may instead go for the purchase of additional bases necessary for expansion. On the other hand, incomes for financing efficient practices would be larger.

Even the empirical evidence has not been analyzed sufficiently to help much in giving the answer. Production efficiency in California, with closed bases, seems to have advanced as rapidly as in the Midwest or Northeast, but the production conditions are greatly different so that even if efficiency changes were measured precisely we could not be sure that "everything else was held constant."

These considerations would be expected to have similar weight in the Northeast as in the Midwest. But there is one additional consideration that weighs against use of plans with closed bases in the Northeast, namely that the trend toward fewer and larger farms is progressing more rapidly than in the Midwest. In the three years between 1954 and 1957, the number of farmers selling milk or cream declined by nine percent in Wisconsin, 11 percent in Vermont, 13 percent in New York, and 19 percent in Connecticut. The faster that farm consolidations occur — some farms leaving the business, and others rapidly expanding their output — the greater is the administrative and economic problem of getting closed bases transferred rapidly enough so that increases in economic efficiency are not retarded.

A further statistic on the rapidity of change in the Northeast is an increase in average deliveries per farm of members of the Connecticut Milk Producers Association, from 350 pounds per day in January 1949, to 818 pounds in January 1959. Average size more than doubled in ten years.

The decline in numbers of dairy farms is not slowing down, either. In New York State, the number delivering milk fell from 48,507 in June 1957, to 45,800 in June 1958, a decrease of six percent. The number in the New York-New Jersey pool fell from 52,192 in February 1958, to 50,212 in February 1959, a decrease of four percent. The number in the Boston pool fell from 10,989 in December 1957, to 10,224 in December 1958, a decrease of seven percent.
6. Manufacturing values of milk as movers in Class I pricing formulas. Manufacturing values of milk are not used in Class I formulas in the Northeast, but are used as movers in the Midwest and in nearly all other parts of the country. One reason for their continued use in the Midwest is the close proximity of large volumes of milk being delivered to unapproved markets, which would shift to fluid markets if price incentives increased.

Manufacturing uses of milk take a slightly smaller percentage of the milk supply now than ten years ago. In 1957, manufactured products took 50.1 percent of total U. S. milk production, compared with 52.3 percent ten years earlier, in 1947. This decline is very small. However, with more and more milk under federal orders, the volume of manufacturing milk outside the orders, and with a price not set by terms of federal orders, has undoubtedly decreased much more than that.

The Northeast view is that although common supply factors and not-quite-so-common demand factors can be expected to result in fairly close relationships between fluid and manufacturing values of milk, changes in the supply or demand for fresh fluid milk ordinarily can be expected to affect the price of butter, cheese, and other manufactured products, as often as the other way around. There seems no valid reason why every jiggle in the manufacturing value of milk should be reflected at once in a change in the Class I price.

There are two provisos that I am inclined to add to this conclusion. First, Class I prices should not depart from certain specified ranges relative to manufacturing values of milk. The limits of these ranges should be set forth in the form of snubbers to Class I pricing formulas, varying among regions, and perhaps related to utilization percentages. I should hasten to add that this is my own personal view, and does not, I am sure, coincide with the opinion of most cooperative leaders in the Northeast. I should also add that snubbers in a major market may be sufficient if Class I prices in adjoining markets are kept in line. Pricing in the New York-New Jersey market, for example, with more than 50,000 producers, dominates pricing in the adjoining markets in New England and Philadelphia.

This holds true despite the fact that five of the eight largest in Class I sales of the 75 or so federal orders in the United States are in the New England and Middle Atlantic States. These are New York-New Jersey (1st), Connecticut (4th or 5th), Boston (4th or 5th), Philadelphia (6th), and Southeastern New England (8th). Chicago, Detroit, and Cleveland are the other three federal order markets in the eight largest in size in Class I sales. Because of incidental interest in the size rankings of federal orders, I have listed the first 12 in Class I sales and in producer receipts, in order of size, in Table 2 appearing at the end of this paper.

The second proviso is that it is essential that a supply-demand adjuster "with teeth in it" be used if Class I pricing formulas omit manufacturing values as movers.

7. **Supply-demand adjusters in Class I pricing formulas.** Supply-demand adjusters have a greater effect on Class I prices under formulas in the Northeast than in the Midwest. The total possible effect is 48 cents per cwt. in Chicago; $1.35 in Boston, Southeastern New England, and Connecticut; and without limit in New York-New Jersey. Not only is the possible effect greater in the Northeast, but also actual changes due to supply-demand adjusters in the past, from month to month and from year to year, have been greater.

Suggestions for optimum use of this device were given by the writer in a paper at the annual meeting of Federal Order Milk Market Administrators in New York City last November.\(^5\) If suggestions given at that time are followed — broad coverage as a base, a correct amount of price change for given changes in utilization, the use of up-to-date statistics for changes in the supply-demand factor, and proper treatment of the seasonal problem — the supply-demand adjuster can be an extremely valuable part of a Class I pricing formula.

Support for supply-demand adjusters is strong in New England. Dr. C. W. Swonger, Economist for the New England Milk Producers' Association, said in a paper last November that "I have sometimes said that it did not matter what type of base or movers were used in a pricing formula so long as it contained an adequate supply-demand adjustment."\(^6\) Support sometimes seems less strong among cooperative leaders in New York-New Jersey, but strong enough to permit its almost continuous use for more than eight years.

In the Midwest, the effect of supply-demand adjusters on Class I prices is sometimes suspended. Support for the device is less strong than in the Northeast.

There are other differences that could be mentioned between Northeast and Midwest viewpoints on milk pricing. Whether health regulations are more strict or more restrictive in one area than in the other has sometimes been debated. Negotiated price premiums possibly have occurred more frequently in the Midwest, although occasionally they have been paid on a market-wide basis in the Northeast, and are common in parts of the Northeast milksheds where competition for supplies is greatest. However, I will stay with my list of seven for detailed discussion — 1, the availability of uninspected supplies; 2, regional differences in production changes; 3, the potentialities of the Northeast as a market for Midwest fluid milk; 4, possible gains to the Midwest from lower Northeast Class I prices; 5, the attitude toward and place of base-excess plans; 6, manufacturing milk prices as movers in Class I formulas; and 7, supply-demand adjusters in pricing formulas.


In conclusion, I would like to emphasize that I am not arguing for exact conformance — for uniformity — in Northeast and Midwest milk pricing methods. Each can learn from the other, and perhaps imitate the other on occasion, but the differences have value, too, if in response to variable situations and problems. The urge for uniformity is powerful. In the Connecticut Federal Order that goes in effect on April 1, the desire for uniformity on the part of the Dairy Division probably was the greatest single factor resulting in a Class II price that is too low in July and August, a lower classification for bakery milk than is desirable, and a second-best Class I pricing formula and seasonal pattern of prices. A lesser desire for uniformity would have resulted in a better Connecticut order. So, too, a mutual toleration for differences designed for particular situations would be expected to contribute toward better Midwest-Northeast relationships in the dairy marketing field in the future.

<table>
<thead>
<tr>
<th>State</th>
<th>Milk production average (1938-40)</th>
<th>1953</th>
<th>1958</th>
<th>Percentage change 1938-40</th>
<th>Percentage change 1953 to 1958</th>
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</thead>
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<tr>
<td></td>
<td>(million pounds)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Florida</td>
<td>332</td>
<td>768</td>
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<td>+45</td>
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<td>+15</td>
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<td>1,750</td>
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Table 1 continued

<table>
<thead>
<tr>
<th>State</th>
<th>Milk production 1938-40 (million pounds)</th>
<th>Milk production 1953 (million pounds)</th>
<th>Milk production 1958 (million pounds)</th>
<th>Percentage change 1938-40 to 1953 (percent)</th>
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<tr>
<td>South Dakota</td>
<td>1,653</td>
<td>1,369</td>
<td>1,474</td>
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<td>96</td>
<td>92</td>
<td>-14</td>
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<tr>
<td>Colorado</td>
<td>997</td>
<td>891</td>
<td>850</td>
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<td>New Mexico</td>
<td>271</td>
<td>218</td>
<td>227</td>
<td>-16</td>
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<td>Oregon</td>
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<td>2,113</td>
<td>-18</td>
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<td>500</td>
<td>-25</td>
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<td>United States</td>
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<td>125,236</td>
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Table 2. Order of size of 12 largest of the 77 federal milk orders in the United States

<table>
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<tr>
<th>Rank</th>
<th>Volume of Class I sales</th>
<th>Receipts of milk from producers</th>
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<tbody>
<tr>
<td>1</td>
<td>New York-New Jersey</td>
<td>New York-New Jersey</td>
</tr>
<tr>
<td>2</td>
<td>Chicago</td>
<td>Chicago</td>
</tr>
<tr>
<td>3</td>
<td>Detroit</td>
<td>Detroit</td>
</tr>
<tr>
<td>4</td>
<td>Connecticut</td>
<td>Boston</td>
</tr>
<tr>
<td>5</td>
<td>Boston</td>
<td>Philadelphia</td>
</tr>
<tr>
<td>6</td>
<td>Philadelphia</td>
<td>Cleveland</td>
</tr>
<tr>
<td>7</td>
<td>Cleveland</td>
<td>Connecticut</td>
</tr>
<tr>
<td>8</td>
<td>Southeastern New England</td>
<td>Puget Sound</td>
</tr>
<tr>
<td>9</td>
<td>North Texas</td>
<td>North Texas</td>
</tr>
<tr>
<td>10</td>
<td>Puget Sound</td>
<td>Twin Cities</td>
</tr>
<tr>
<td>11</td>
<td>Twin Cities</td>
<td>St. Louis</td>
</tr>
<tr>
<td>12</td>
<td>St. Louis</td>
<td>Southeastern New England</td>
</tr>
</tbody>
</table>

1 Data on Class I sales for December 1958 for all except Southeastern New England, where an estimate was made.

2 Data on producer receipts for the year 1958 for all except Connecticut and Southeastern New England, where estimates were made.
ADDRESS BEFORE THE NORTHEAST DAIRY CONFERENCE DINNER

by The Honorable Allen J. Ellender
United States Senator from Louisiana
Chairman, Senate Agricultural Committee

I am delighted to be with you.

When my friend Ed Merrigan first issued your invitation to me, I was somewhat concerned about the propriety of a Louisiana addressing a fellow-Louisianian to address a meeting of dairy farmers from the northeastern United States. Events of recent weeks somewhat fortified my fears, especially in the light of recent charges that the Senate's seniority system has tended to place cotton in a dominant position over dairy products.

As all of you must know, my home State of Louisiana produces much of both commodities.

However, above and beyond that consideration, I want to go on record as stating that if ever any member of this audience, or any dairy farmer in the United States, believes that his commodity is not getting fair treatment at the hands of the Senate Committee on Agriculture and Forestry, just let the Senior Senator from Louisiana know about it. I may not agree with you, but I can give assurance that I will be fair and give you every opportunity to present your case in its true light.

This evening, I do not propose to further fan the fires of sectionalism. On the contrary, I would like to talk briefly with you about a subject very close to all of us — namely, farmer cooperatives.

Farmer cooperatives have made a significant contribution to American agriculture. Traditionally farmers have been at a disadvantage in the marketing of their products. Many factors were responsible for this but by far the most important was the complete absence of bargaining power on the part of the individual farmer.

The cooperative system grew out of this inequality and in my opinion the many years of hard work have not been in vain.

That farmers have availed themselves of the opportunity to unite is evidenced by their participation and membership in marketing cooperatives. The Department of Agriculture reports that during 1955, a total of over seven thousand cooperatives marketed farm products having a gross value of about $9.5 billion. It is interesting to note that dairy cooperatives were reported to again be the leading commodity cooperative with gross marketings of about three billion dollars — nearly one-third of the total.

The same report showed that there were over one hundred and fifty cooperatives, with about one hundred thousand members, engaged in marketing dairy products in the Northeastern area of the United States.
That the cooperative associations have performed their basic function well is difficult, if not impossible, to establish statistically, but, in my opinion, is clearly evidenced by the persistency and intensity of attacks on cooperatives by competitors and others, as well as by their growth.

While the fundamental purpose of farmer cooperatives is to provide strength through unity beyond the reach of the individual farmer, it is also fundamental that in order to be effective, any cooperative must have the ability not only to cope with current problems but also to plan for the future.

I do not mean to imply that farmer cooperatives have had no problems in the past. On the contrary, cooperatives have always had problems, but the intricacies of, and developments in, the marketing field in recent years have intensified these problems and have made their solution more difficult.

It is my hope tonight to point out to you what I consider to be some of the most pressing problems facing farmer cooperatives, to offer my views as to how these problems can best be solved, and to try to indicate what will be required in the future if cooperative associations are to continue to play their contemplated role in maintaining a strong family farm system.

Many of the problems that you have as dairy cooperatives are unique to your industry, but many others apply to farmer cooperatives generally. For purposes of discussion, I have classified these problems into four broad categories: First, those which I consider to be management problems; second, problems concerning competition; third, problems of surpluses; and fourth, and most important, problems of government.

Most of you are aware of the issues that face you in management — planning, financing, organization, public relations. These are the elements of internal management which require immediate and continuing attention. In order to be effective in meeting the challenges of our changing business world, cooperatives must consider their own capabilities in relation to those of their competitors not only for the present, but also for the future. Vigor and vitality must be demonstrated by management in order to measure up to the faith of farmers in their cooperative potentials.

Growth may come in several ways. One, of course, is by obtaining a larger membership. This can be accomplished in three ways: first, by increases in the number of individual members; second, by farmers increasing the size of their individual operations; and third, by merger with other cooperatives. It is my personal opinion that farmer cooperatives should examine closely the feasibility and desirability of obtaining additional strength through merging operations. I do not believe that mergers and consolidations of themselves will result in increased efficiencies and economies, but they might well provide opportunities for increased benefits, through greater cooperative effort, under certain circumstances.
However, let me point out, and I cannot over emphasize this, that farmer cooperatives must remain just what the name implies if they are to enjoy this growth or, for that matter, even survive. The American consuming public, and American public opinion as a whole, will not long countenance the intrusion by farmer co-ops into other enterprises, such as petroleum processing, not directly related to the production or marketing of agricultural commodities. In other words, the cooperative as a creature of the law was designed for certain specific purposes directly related to agriculture. It must never become a cloak under which unfair competition with our traditional private enterprise system can be conducted.

It is unfortunate but true that much of the hostility towards cooperatives which presently exists among members of our business community results from the abuse by a few cooperatives of the rights and privileges which the law — both State and Federal — has extended to cooperatives as a whole. I need not point out that the present hue and cry for so-called "equal taxation" of cooperatives is the direct result of some co-ops extending their functions into fields which, for their own good, should remain forbidden ground. I urge all of you present here this evening, all who know and appreciate the worth and purpose of cooperatives, to increase your efforts to see that farmer co-ops are confined within proper bounds, to the end that their future strength and growth will be assured.

Financing is another major area presently a problem of many cooperatives. I must admit, however, that this is not new, nor will it disappear. But I am sure that you will agree that those associations whose management practices are sound and forward looking will experience less difficulty than others less progressive.

Because of future capital requirements, farmer cooperatives will be pressed more than ever in their search for additional funds. Since members will not be able to provide all of the risk capital, large amounts will have to be borrowed from credit institutions. These institutions will, I believe, continue to be selective in providing money. Therefore, I would suggest that you take stock of your internal management, look at your organizations objectively, and make the changes necessary to place yourselves in a more desirable position.

Flexibility and change are requirements of a successful cooperative. The association whose organization and management is too rigid to meet changing conditions by adopting new methods, procedures and practices, whether they be in accounting or in sales, cannot expect to survive long. Management must be able to diversify or specialize, to move into new markets, and to take advantage of technological advances. I think that you would agree that there is ample evidence attesting to the fact that successful cooperatives have attained most of these objectives.

However, it is my personal opinion that farmer cooperatives and their farmer members have been woefully lacking in the foresight to develop sound and continuing programs of public relations. Naturally, most cooperatives have been concerned primarily with the relationship between the cooperative and the membership. This was necessary and will continue to be the case. Progress requires the understanding and support of members. They are the owners and patrons and must be kept fully informed of the opportunities of cooperative action in increasing their
Similarly, members must realize their responsibilities if the associations are to provide continued and needed services. Only through continuing orientation and education can this be achieved.

Generally, I believe that you have done a splendid job in this respect.

But I do not believe that sufficient effort has been expended in the field of general public relations. As farmers become a smaller proportion of our total population, their strength — even in unity — will diminish. At the present time farmers constitute only about twelve percent of the total population and it is likely that this percentage will decrease in future years. In my opinion, farmers must strive — through organizations such as cooperatives — to secure the sympathy and understanding of consumers. This is not an easy job, nor can one cooperative alone accomplish this objective. On the contrary, public relations is and must be the responsibility of the whole cooperative movement. Farmer cooperatives must accept this additional burden and inform people generally of their objectives.

Now you say, of course, that not all farmer cooperatives deal directly with the public and this is true, but unless cooperatives gain acceptance by the public, they will expose themselves to possible extinction. It seems to me that if cooperatives demonstrate a genuine sense of civic and economic responsibility the task will be made easier. Consumers and the public are generally fair in their judgment of the actions of large organizations, so long as they feel that these organizations are interested in consumer welfare. A sympathetic public and press can contribute substantially to the progress of cooperatives. By the same token, an unimformed public and a hostile press can do much towards wrecking the structure of farmer cooperatives.

Basically, however, the success of cooperatives is going to depend on how well the business is run. Good management is essential in the competitive struggle for growth, and in some cases survival. Competition is the basis of our free enterprise system.

Farmer cooperatives were designed to place farmers in a more equal competitive position with big business. The continued growth and expansion in the size of retail outlets and other marketing organizations has placed additional burdens on farmer cooperatives in their effort to maintain bargaining strength. But this is not the only competition which farmer cooperatives must meet. They must be competitive with other firms marketing the same products, they must be competitive with other cooperatives, they must be competitive with other areas, and they must be competitive with respect to product substitutes. Those of you who are integrated and reach the ultimate consumer must compete with national sales organizations much larger than yours. In many instances this would seem to be unfair. However, I personally believe that if you continue to demonstrate the vigor and vitality of the leadership you have evidenced in the past, you will continue to be successful. It is a never ending economic struggle which demands the best effort possible.

The dairy industry, as in the case of many other agricultural commodities, has experienced surplus production in recent years. However, contrary to the trend experienced in corn and feed grains and other commodities, the dairy industry has begun to liquidate its surplus production to a point where supply is more in line with demand. In setting price supports for
dairy products for the 1959 marketing year at the same dollar and cents level as last year, but at a slightly higher percent of parity, the Secretary of Agriculture said that the reduction in the number of milk cows in 1958 amounted to about three percent and that total milk production was down by about seven hundred million pounds. This reduction, coupled with the rising population and the significant increase in cheese consumption, caused the total commercial use of milk to increase in 1958. The Secretary further expected that the outlook for 1959 was bright with respect to a continued decrease in the milk surplus.

This is heartening news but it does not mean that the problem of surplus producing areas has disappeared or that the pressures for this surplus milk to move into fluid milk markets will diminish. The fact that there are surplus producing areas and that certain areas will continue to be surplus producers seems to me to be one of the most difficult internal problems that the dairy industry will have to face in the immediate future. I know that the industry is seeking tirelessly to find equitable ways and means of eliminating these surpluses in the hope that dairy prices would stabilize nationally.

Dairy cooperatives in the very heavily populated northeastern areas are in the very fortunate position of having good markets for their products. Most of you operate in federal market areas and fluid milk is your principal product. As a result your prices are attractive as compared to manufacturing milk prices, even though your costs of production are substantially higher. However, I must admit that some of the proposals which have been made concerning surplus milk would penalize some farmers in favor of others. This is not equitable nor desirable. But, as always, there are two sides to the problem. It seems to me that the ultimate solution should be equally fair to all. Farmers, whether they be dairy producers or others, have nothing to gain through internal dissension. In my judgment the approach to use in the attempt to solve internal problems must first begin with mutual understanding and sympathy. There is little doubt but that confidence and trust offer a much better climate for discussion which may produce desirable results.

Competition is keen in the dairy industry, and this is good. Those of you who are concerned most in the daily competitive struggle must of necessity expend considerable energy in your efforts to maintain your markets. This is your right and it must be recognized. But you must also recognize that others have rights also and they will attempt to exercise these rights for their benefit.

As long as competition is within the recognized bounds of fairness and decency, cooperatives and consumers will benefit, but not all competition is healthy competition. Competition which is based upon a desire to destroy, as opposed to a desire to better serve consumers, is not, to my way of thinking, competition at all. It is really greed in its most ruthless form.

Fortunately, examples of this kind of economic warfare have been few and far between and I hope they remain so. Nevertheless, those who seek to indulge themselves in "robber-baron" practices should remember that the Congress has erected certain statutory safeguards to protect
consumers. In erecting these safeguards, it was our intent that they be used, and if they are not used, or should they prove inadequate, then there is no doubt in my mind but that the Congress will not hesitate to move vigorously in this area. The public interest, which all of us are pledged to serve, cannot be made the pawn of greedy interests.

While healthy competition is the very basis of our economic way of life, there is, in essence, little or no difference between the use of "robber-baron" tactics under the guise of competition, and the economic methods employed by the Marxist brand of Communism in the Soviet Union today.

As many of you know, I have travelled extensively throughout the Soviet Union. I have visited many dairy farms and observed the method by which the Russians produce and market fluid milk and other dairy products.

In this area of the economy, as in almost every other, the Soviets have determined to surpass the United States. Our productivity is the envy of Russian agriculture, and the Soviet State has based its production goals in the Soviet Union upon what we regard as normal production in the United States.

For example, on every dairy farm I visited in the Soviet Union I saw huge signs, strategically placed, exhorting Russian farmers to surpass the United States in the production of milk cheese, butter, etc.

Of course, in many of the areas where the Soviet leaders are attempting to establish dairying on a large-scale basis, conditions are entirely unsuitable. In Siberia, for example, while it is possible to produce quantities of dairy products, the cost would be regarded as virtually prohibitive by our standards.

And yet, despite the enormously high production cost of dairy products there I do not believe for a moment that cost of production alone will deter the Soviet planners from building and maintaining a dairy industry in those areas.

The hallmark of a controlled economy, such as that of the Soviet Union, is the frequent ignoring of those economic factors which operate within a free enterprise system such as our own.

Cost as such is an insignificant factor in a controlled economy, which more frequently than not determines its direction and objectives solely in terms of domestic or international political considerations.

In this regard, however, I would like to point out that it is not mere coincidence which has prompted me to link, in this discussion, the "robber-baron" tactics of cut-throat competition, and the "cost-be-damned" approach of a controlled economy, for the two go hand in hand.

Let me emphasize that it makes no difference who stimulates or indulges in such competition, nor does it make any difference what those entities may be called. Whether they be denominated as individuals, proprietorships, corporations, or cooperatives, it is my considered judgment that they do violence to our free enterprise system.
In any event, members of farmer cooperatives, as well as other representatives of our entire free enterprise system, must understand that they face a grave challenge today. That challenge can perhaps best be summed up in the phrase, "Responsible Capitalism."

Responsible Capitalism requires not only the exercise of responsibility in directing competitive forces, and the constant dedication of business enterprise to the public good, but it also requires the utmost utilization of technological and other advancements.

Dairy cooperatives, in particular, can look for constant increases in competition resulting from technological developments. Research is the tool of progress, and if farmer cooperatives are to benefit from technological progress, it appears to me that they must be prepared to participate fully in the development of new and improved products.

The last problem area that I expect to touch on tonight is to me by far the most important and the one that I expect will give us the most trouble in the future. The basis of strength of farmer cooperatives clearly is a result of action by Congress. The Clayton Act, and the Capper-Volstead Act, as well as amendments to the Internal Revenue Code, were designed to permit the establishment and growth of farmer cooperatives and to permit them to operate for the benefit of farmer members. As I indicated previously the relative strength of the farm population as compared to the total population is declining. Therefore, it becomes more difficult every year to enact legislation beneficial to farmers. I believe that all of us must be prepared to operate in situations less desirable than they are at present. We must remember that what the Government has done, the Government can undo. Farmer cooperatives are under attack in many ways at the present time by various agencies of the United States Government. I do not intend to pass on or discuss the merits of these particular cases at this time, because I do not have all of the facts at hand. I only know that these actions may well be intensified in future years, many of them to the detriment of farmer cooperatives.

I am concerned at the timing of these suits. Efforts by Federal agencies against farmer cooperatives seem to have developed only in recent years and only against the larger cooperatives. It may well be axiomatic that with largeness comes difficulty. Yet, it is also necessary for farmer cooperatives to grow and expand if they are to provide farmers of tomorrow with the services they will need.

I am grieved and not a little bit confused to note that, since the advent of the present administration the Justice Department and other agencies of the Federal government have intensified their attacks on cooperatives. In this regard, I wonder if the Department of Justices and the Department of Agriculture aren't beginning to go off on opposite tangents. On the one hand, Mr. Benson is demanding reduced price supports, abandonment of the parity concept, the abolition of the small farmer, and the concentration of American agriculture in larger units. On the other hand, Mr. Rogers and his Justice Department aides are filing more and bigger suits against farmers for heeding Mr. Benson's wishes.

What the answer to this dilemma is, I frankly do not know.
Certainly farmers cannot afford to merely lie down and surrender without a fight. On the contrary, they must renew their fight, not only for their individual survival, but for their right to organize themselves into production, processing, and marketing cooperatives. As farm prices fall, as the farmers' share of the consumer's dollar continues to dwindle, American agriculture must seek and find ways to preserve for itself some of the proceeds which presently find their way into the hands of the middlemen.

This is a search which must be encouraged, for upon its successful conclusion rests not only the continued survival of agriculture as a separate industry, but the welfare of our consumers, as well.

I urge you tonight to tell the story of this search to the American consuming public. Intensify your public relations effort — let the consumer know what our cooperatives are trying to do.

Find and use specific methods of demonstrating to them that, just as there is room in our free enterprise economy for individual and corporate marketing organs, so is there a place — and a growing place — for farmers, as individuals, banded together into cooperatives, for their mutual benefit, and in furtherance of the welfare of the consuming public.

Once the public is made aware of the task farmer cooperatives are designed and empowered to perform, then and only then will the future of farmer cooperatives be assured.

Thank you for honoring me with this invitation to be present here this evening. It has been a stimulating experience, and one I shall long remember.
COOPERATIVES AND THE LAW

by Frank Lent, Panelist
Legal Counsel
Dairymen's League Cooperative Association, Inc.

We have always had some farmer organizations called "Unions", but solely composed of farmers. However, what we are talking about today is the unionization of farmers by labor unions to bargain for the sale of farm products.

We have faced this threat in the New York Milkshed for the past few years. A rump bargaining agency known as the Guild (for short) started to organize dairy farmers on a very loose basis; then after a while the Guild merged first with one labor union and then another. At least the Guild accepted charters from those unions. The second charter it accepted was a charter from the Philadelphia council of the Teamsters' Union which was a charter as a local -- Local No. 69. Since then the Guild has passed out of existence and we now have only the Local of the Teamsters' Union. They haven't been very active lately -- they get out a call to a meeting once in a while. Apparently no reason appears for these meetings, they just happen. They still hold meetings -- they held one within the last month in the western part of New York State and a few farmers signed up -- five or six. But we never know what causes this present lack of push to their activity -- it comes and goes but it could get tough.

One of the things we feared about it when it was much hotter than now was that the union organizers would drive into a farmer's yard, five or six in a car, and they would say, "We are coming here only this once. We would like to have you sign up as a member." They would be courteous, except they would say to him, "We think it would be a good thing to sign up because there are members of the Teamsters' Union inside of the plant where you ship your milk and maybe some morning they might not take your milk, so you had better sign up." That constituted the polite but serious threat.

We analyzed that and we saw the trick was action by the inside help at the receiving plant -- that is where the threat lay. We tried to figure out a method of meeting this threat besides regular organization activity in which we tried to educate farmers against this. We thought up a couple of legislative moves that might be made. Examining the anti-trust laws and the right of labor unions by law to bargain for the sale of a farm product leads to considerable doubt as to whether the labor unions can do that within the realm of their anti-trust exemptions. However, there is a little mixup in the laws. In the Clayton Act, which has been involved in the courts recently, the co-ops and labor unions are exempted in the same sentence. Then we looked at our New York State laws and found that under them we had a little question along this line but then we further analyzed the situation.
Aside from this basic question of anti-trust illegality, we considered the way in which to meet the actual emergency of milk refusal by inside help at a plant. That is, Teamster members refusing to accept milk from farmers who do not carry Teamsters' cards. We looked to see if we had any rights in court to stop that sort of interference with the delivery of farm products for organizational purposes. That led us into the question of injunction, because that is the quick way of getting relief in court, and we ran into these Federal and State acts which were passed a little less than 25 years ago. The Federal Act is called the Norris-LaGuardia Act. This Act changed the right to injunction against labor unions from what it is against any other kind of corporation or association. It provided that you cannot get an injunction in the event of a "labor dispute", no matter how strong a showing you make against a labor union, unless you get the labor union into court. They must have a hearing with witnesses and with cross examination, before they can be enjoined. That is not true as to any regular farm organization. That act was passed by the Federal government and most of the states. We have one in New York State called the "little Norris-LaGuardia Act."

So, the next thing that occurred to us was whether if a farmer tried to deliver his milk in the morning and he couldn't because the inside help would not take it in, could we get some judge to order the inside help to take this milk in? On this, we ran into this little Norris-LaGuardia Act. Of course, you could get an injunction even under that act after a kind of trial, called a hearing, but that takes too long — the farmers have lost four or five days' milk check by that time or signed up with the Union.

In view of this we whipped up a piece of legislation to say that any action by a labor union should not be considered a "labor dispute" and therefore not subject to these procedural handicaps if the purpose of it was to negotiate the sale of farm products.

We also proposed another related bill. We have had an old argument in the Northeast in several places about truckmen refusing to handle products brought in by farmers. We got up a piece of legislation that said that in case of perishable agricultural commodities, even though an actual labor dispute existed and bargaining was going on between employers and a labor union of employees on wages, etc., we should be entitled to an injunction to prevent a stoppage of transportation, processing, warehousing or distribution without waiting for this slow hearing procedure. That we called the Perishable Commodities Bill, and the other one we called the Labor Disputes Bill, eliminating farm pricing from the term "labor disputes." Both these bills passed the 1958 session of the New York State legislature and Governor Harriman vetoed both of them. I don't know why.

All the cooperatives, the Grange, Farm Bureau and general farm organizations backed these bills. Many letters from farmers came in with regard to them, but, strange to say, the present legislature, the one that went out of business at 12:30 this morning, didn't want to pass these bills. They turned down absolutely the Labor Disputes bill, but at 12:30 this morning they finally passed the Perishable Commodities bill, trimmed down somewhat.
We hoped at one time that we could get the AFL-CIO, which has nothing to do with this organization of farmers, to go along with us on the Perishable Commodities bill at least, but the CIO put out a special message with reference to these two bills. The letterhead is AFL-CIO, and it says, "We oppose this bill," and then it gives the number of the bill and then the arguments in opposition. Separate special opposition letters were put out on each of these bills.

We haven't got much but we achieved a partial break-through. From what we hear the State Department of Agriculture and Markets helped us with it and I think the Governor's office helped, so I hope the Governor will sign it. It will give us something.

This bill might serve the purpose even without the Labor Disputes bill. If inside help in plants in New York State said, "We won't take in the milk this morning except for card-carrying members of the Teamsters' Union," we could go to a judge and they could be ordered to take in that milk immediately and at least until the judge had a chance to hold a hearing to see if they had a reasonable basis for refusing to take in the milk or to see if we were right, that they were trying to do something for farmers which they had no basic right to do under existing law; namely, bargain for the price of a farm product.
I am satisfied that there is profound change taking place in the attitude of the Anti-Trust Division toward cooperatives and farmers in general. The Anti-Trust Division has, up until recent years, adopted a moderate approach toward the question of whether cooperatives are in general inimical in the Anti-Trust sense, or whether their regulation may be safely entrusted to, let us call them the experts in the field, namely the Agricultural Department. We have always felt that the Agricultural Department is the proper governmental organization to regulate cooperatives in accordance with the provisions of the Capper-Volstead Act and up until 1940 the Anti-Trust Division had apparently fallen in with that viewpoint. However, in the regime of Thurman Arnold as head of the Anti-Trust Division in 1942 that Division undertook to prosecute by indictment a cooperative out in the State of Oregon on the sole basis that the cooperative was a monopoly. In other words, it furnished a vast majority of the milk to the distributors out in Portland, Oregon, and surrounding area. The case came up before a Federal judge and the Federal judge dismissed it on the theory that cooperatives enjoy a preferred status under the Anti-Trust laws and that there was nothing in those laws to prevent a cooperative acquiring the majority of producers of milk in that area. And on the strength of that the Government's case was dismissed.

That was followed in the early 40's by the famous case of the U. S. against Borden, wherein a number of corporate entities were all indicted in a racketeering type of conspiracy to fix the price of milk. Ultimately the case went to the Supreme Court, taken there by the Government, and the court distinguished between a cooperative in and of itself and the same activities where there had been a joiner between the cooperative and non-cooperative entities. The Court conceded to the Capper-Volstead Act which said that the ordinary immunity of a cooperative stops if it combines itself with some outside entity such as a labor union, distributor, or other people. In general then the law has been, as you know, that the Anti-Trust Acts, originally passed in 1890, have condemned restraint of trade in interstate commerce on the part of anyone. Likewise, it has condemned the acquisition or operation of a monopoly and, incidental to those two, it has condemned any agreement which would result in any restraint of trade, and, in addition, any conspiracy in restraint of trade or to obtain a monopoly, and of course any actual operation of a monopoly.

Then in 1950 there was passed what has been called a Seller amendment to the Clayton Act, which has provided that any merger achieved either by the acquisition of stock or assets of the selling company which had any substantial effect upon competition in interstate commerce was proscribed and the courts were vested with jurisdiction to prevent such a merger or, if it had already occurred, to require the acquiring party to divest itself of the competitive entity so acquired.
Lastly there is the Robinson-Patman Act. All of these various statutes are of particular interest to cooperatives but, on our side, we have the clear declaration of Congressional policy contained in section 6 of the Clayton Act, to the effect that like labor unions agricultural cooperatives enjoy an immunity from the Anti-Trust acts in the sense that they are allowed to operate for the benefit of their various members and any legitimate activity undertaken by that cooperative or set of cooperatives is valid and proper.

Then later on, in 1922, we had, as you know, the passage of the Capper-Volstead Act and that provides in so many words that cooperatives could organize for the mutual benefit of their members. It likewise provided that in the event a cooperative or set of cooperatives restrained any commerce or monopolized commerce to the extent that the price of any given commodity in the area was unduly enhanced, then the Secretary of Agriculture could cite the cooperative for it and hold hearings and in the event he found there had been an undue enhancement, he had the right to issue a cease and desist order, and in the event the cooperative did not obey the order then the Attorney General (Anti-Trust Division) could proceed in court and get court action under the threat of punishment. During the entire history of the Agricultural Department there has been no hearing held by the Secretary of Agriculture on the basis that there has been undue enhancement on prices and I trace that to the fact that cooperatives have simply not unduly enhanced prices during the period of their operation, but I see that the Anti-Trust Division has lately been fired with the enthusiasm and has, by someone, been sold on the idea that the only way in which cooperatives may be restrained, prevented from becoming too powerful, is for the Anti-Trust Division to undertake a large scale tamping down and supervision of the supervision of the activities of cooperatives.

Our organization, small as it is, has been on the receiving end of four Anti-Trust suits, three of them criminal in character and one civil. The criminal cases have all been decided in favor of our cooperative. The civil case has involved charges of an attempt to monopolize the sales of milk in the Washington area by way of the purchase of Embassy Dairy and others. There was also the charge that the purchase of Embassy Dairy and Richfield-Wakefield Dairy was in itself illegal. The court held that being an agricultural cooperative we had the right to monopolize, provided we did not join with some outside party; however, it held that in respect of the purchase of Embassy Dairy, the contract of purchase constituted a joiner with an outside party. The acquisition of Richfield-Wakefield Dairy the court upheld on the basis that it was a failing venture. As to relief, the court ordered us to divest ourselves of Embassy Dairy within a year, but granted a stay pending Supreme Court review. We are appealing to the Supreme Court on the part that we lost and the Government on the part they lost and the case will be argued later.

All I want to stress to you gentlemen is the fact that in the event the Anti-Trust Division makes its position solid, it is not too alarmist to say that we are almost at the end of the cooperative movement. In other words, if the supervision of the Anti-Trust Division is going to reach the point that any cooperative which achieves control of the market in any commodity over and above 50 percent, which is a technical monopoly, in that event, should the Supreme Court ratify that concept adopted by the Anti-Trust people, I am afraid we are going to be subject to countless prosecutions and civil suits all over the country, wherever a cooperative has a substantial control of a market.
In my opinion it is impossible to make a cooperative's activities effectual unless there is most of the time a position in excess of a 50 percent control in any given market. You see the tendency has been in recent years for large aggregations of capital to get together in any community and achieve in that way a dominant buying position. There is no way to meet the threat of such economic control unless a cooperative is itself very powerful. The only way it can reach that position of power is through the control of a very substantial part of the commodity which it is organized to market. Lacking that control the large volume organizations, chain stores and others, simply play off one small cooperative against the other. That inevitably results to depress the price for the particular commodity in that area, so that it is a step toward the destruction of the cooperative movement itself and the reduction of the farmers' efforts into individual efforts by way of the old traditional American method of the independent farmer. The program just won't work when you have a product that has to be picked up every morning and cows that have to be milked every day. It is impossible for the farmer to get a fair price for his milk unless he joins with other farmers and the only effectual way for him to join is getting together with his fellow farmers by way of a cooperative.

Once the Anti-Trust program proves effective and, in the event of the Supreme Court's ratification of that program, I think you will be faced with a rash of criminal prosecutions all over the country with a view to deprive cooperatives of what they call monopoly control. You are going to be faced likewise with many civil suits which will hamstring the program of integration.

The Agricultural Department, as you know, has for many years been making very intelligent and long-sighted effort to get cooperatives to integrate all their activities into a balanced operation. To that end, it has promoted, for a period of years, the acquisition by cooperatives of retail outlets, such as a local dairy. In fact that was one of the subjects of the civil suit against us — we acquired a local dairy and the Government instituted suit to compel us to divest ourselves of it. We borrowed from the Baltimore Bank for Cooperatives the money necessary to purchase this local dairy and the purchase and borrowing was actually supervised by the very friendly and constructive efforts of officials of the Agriculture Department, which found no objection to it. However, the court brushed that aside on the theory that it was simply the attitude of one branch of the Government or one official of the Government as distinguished from the attitude of another part of the Government, so was not binding.

However, to bring my little talk to an end, I can only suggest to you that the case itself, which I think will determine all these questions, is in the Supreme Court. There are some fringe benefits which the cooperative movement has drawn from these cases against our organization. In the first opinion which the court rendered October 16 last, the court held clearly that a cooperative under the Capper-Volstead Act and under the Clayton Act had a right to obtain a monopoly and to operate a going monopoly. However, it added the proviso that it cannot operate a monopoly if it has contracted with so-called non-cooperative entities. They found no such monopoly in the first part of the case. In the second and third parts of the case it held that the purchase of a local dairy operated as
a conspiracy with the seller of this dairy although we had no contract with the old owner of the dairy from then on. The court said that the purchase was contact with an outside source and inasmuch as the operation of this local dairy tended to eliminate a so-called competitor, the court held that was a violation of the law and ordered us to sell it. They gave us a year to sell it and then when we took an appeal, it suspended that year's period until the Supreme Court had decided the case. That is the status of the matter at this time.

Cooperatives are thus faced with this dual type of supervision. This is the new program of the Anti-Trust provision, namely to bring all cooperatives under its scrutiny and to require all cooperatives to go to the Anti-Trust Division to obtain a clearance for any activity in which they propose to engage. I predict you will not get it.

Secondly, I think there is going to be a pretty large scale onslaught on cooperatives which are in a monopoly position or just this side of a monopoly position. And I think there is going to be an extensive scrutiny of any effort on the part of cooperatives to acquire retail outlets.

I cannot offer too much optimism except to say that if the Supreme Court should follow the traditional favor which Congress has extended to cooperatives there may be a favorable result. On the other hand, if the Supreme Court takes the position that the cooperative movement itself is an onslaught to the doctrine of free enterprise, the Court may strike down the supposed immunities of the Clayton and Capper-Volstead Acts.
COOPERATIVES AND THE LAW
by A. Evans Kephart, Panelist
Legal Counsel
Inter-State Milk Producers Cooperative

As many of you here know, I am counsel for Inter-State Milk Producers' Cooperative, and the particular phase of the law in connection with cooperatives, which I am to discuss, is income taxes.

"The power to tax is the power to destroy" and a cooperative can be destroyed as easily, and perhaps more so, by the taxing power, as by the commerce anti-trust power.

All farmer marketing and purchasing cooperatives are now required to pay federal income taxes at corporate rates on any net margin of operating receipts over expenses which they retain and treat as their own; that is, which they are not under an obligation to distribute currently to patrons on a patronage basis, either in cash or non-cash form, upon notification.

The latter is a broad exemption, but to take advantage of this, it is necessary to qualify as an exempt cooperative.

To do this:

1. The cooperative must be organized and operated on a cooperative basis. In other words, it has to be a non-profit corporation, owned by its members who have one vote each, and any savings must be passed back to members or producers in accordance with the volume or value of their patronage. It cannot make a profit for stockholders in the sense that a proprietary organization can.

2. Business must be done at cost, less necessary marketing expenses or plus necessary purchasing expenses. Thus, under this heading, a question might arise as to whether insurance taken out and paid for by a cooperative on the lives of directors and payable to the directors' families is a marketing expense.

3. All producer patrons, whether member or non-member, must be treated equally. In other words, a cooperative cannot return patronage refunds to members at twice the rate to non-members, though it can charge the cost of membership against any patronage refund.

4. Business with non-members must not exceed that with members, provided that purchases for sale to non-members who are not producers, must not exceed 15 percent of the value of all purchases. Thus, under this qualification, a marketing cooperative which also acts as a purchasing cooperative and sells farm bulk tanks to its members might get into trouble, if it also sold semi-trailer hauling tankers, costing many times as much as the farm tanks, to too many non-producer haulers.

5. Reserves must have a necessary purpose and be reasonable. Therefore, most cooperatives have set up a revolving fund into which their net savings are placed annually and are paid out at the end of
seven or more years. This fund is a reserve fund to take care of emergency conditions and, if required for that purpose, each producer's share can be ratably reduced when the pay-out time comes, as the fund is usually paid out at the discretion of the board of directors.

6. Stock and voting rights must be in producer patrons.

7. Dividends on capital stock must be limited. If they exceed 8.0 percent, the cooperative is disqualified.

The importance of qualifying completely is obvious when you consider that a cooperative, having savings of upwards of $100,000 a year, may be subject to a tax of 52 percent thereof, if it fails to qualify for exemption.

It seems to me that one basic statement can be made with respect to income taxation of cooperatives. Congress has clearly manifested a desire to foster these mutual self-help institutions for farmers. And surely, as far as Congress is concerned, it does not make much sense to subsidize agriculture to the extent of billions of dollars annually and at the same time destroy their method of self-help by taxation.

Yet the National Tax Equality League wants to subject farmer cooperative savings to income taxation. And the Treasury Department has recently sent Congress a letter outlining changes in the treatment of farmer cooperatives and their patrons. This requires the cooperative to include all margins or savings as gross income and allows deductions therefrom only to the extent the savings are paid in cash or in the form of qualified patronage certificates. These certificates must meet all three of the following requirements:

1. Must bear interest at the rate of 4.0 percent at least.

2. Must be redeemable in cash within three years; and

3. Must be in fact redeemed in cash plus interest within a three-year period.

The effect of such legislation would completely nullify the purpose of the reserve revolving fund, because all of such fund would have to be paid out in full at the end of three-year periods and it could not be used in the meantime to meet emergencies, which it was always intended to cover.

Furthermore, the three-year limitation would limit the size of the fund to the total deductions from members less expenses, namely savings, for three years and it would be insufficient to maintain a strong cooperative.

This statutory change would therefore, for all practical purposes, destroy the cooperative movement.

It seems to me that the major defect in the Treasury Department's thinking is that it refuses to recognize that the savings of cooperatives are not income nor profits of the cooperatives. For instance, in a bargaining milk cooperative, the commission deducted from members may be $0.05 per hundredweight or $0.10 per hundredweight, as they decide. The actual costs of operation may be $0.03 per hundredweight so that the savings are $0.02
or $.07 per hundredweight. In other words, the producers have contributed $.02 or $.07 more than they needed to, in order to merchandise the milk. Thus, depending on the policy set by the membership, with a seven-year revolving fund, there would always be a considerable sum of savings in the treasury to keep the cooperative strong and to meet contingencies. However, some cooperatives may not be able to deduct $.10 per hundredweight and on a three-year basis at a $.02 savings per hundredweight, the reserves would be low and the cooperative weak.

Furthermore, neither the $.02 of savings nor the $.07 of savings would appear to be income or profit, and therefore it should not be taxable as such. The amount depends on what the members want to save annually.

The end result of the Treasury's proposal would be to tend to force reduction of the Cooperative dues or commissions to the exact cost of operation, so that there would be nothing to tax. This would leave the cooperative in such a weak and ineffective condition that it would be on the verge of bankruptcy at all times.

It appears to me that Congress must be made to understand this and, if it wishes to tax these savings, they should be taxed to the producers who are entitled to them in the year saved. If, at the end of the revolving fund period, the total sum is not paid out to a patron, he suffers a deductible loss, at that time, of the difference between what he did receive and what he should have received if paid in full. This ought to satisfy the Treasury's proposed intention merely "to insure that all cooperative income would be taxed either to the cooperative or to its members."

I should say one more thing on this. The Treasury has proposed new regulations. These attack the problem in the opposite manner. The patron is taxed at the fair value of his refund the year it is announced. If it is payable at the Directors' discretion, it has no then fair value and is taxed when finally paid.

In addition, to get exemption, tax free supply cooperatives must be required to compete with tax-paying proprietary corporations selling to farmers within boundaries plainly marked so as to be fair to both.

It is my feeling that cooperatives must take an affirmative stand with respect to this matter and not merely be against the proposal of the Treasury Department.

I believe this to be the most serious attack on the cooperative movement that has been made since the time when cooperatives were considered illegal conspiracies and governments sought to suppress them on that basis.
CORPORATE VERSUS COOPERATIVE HANDLING OF AGRICULTURAL PRODUCTS

by Stanley H. Benham
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A discussion of the comparative advantages and disadvantages of farm purchasing and marketing through corporations versus cooperatives as it has normally been practiced in past years would seem to be a waste of time before a group such as is gathered here. Being almost entirely persons who represent farmer cooperatives, or whose work is closely associated with cooperative activities, it would seem reasonable to assume that you firmly believe farm purchasing and marketing through cooperatives as we have used this service in the past has substantial advantages over the use of purchasing and marketing services offered by corporations owned by non-farmers.

During the very recent past, however, there has appeared and gained considerable acceptance a system of agricultural production, financing and marketing that is drastically different from previous patterns. A system that farmers may participate in through cooperative action or through a form of partnership that some corporations are offering to certain farmers.

What will be comparative advantages and disadvantages of participation in this new system if and as it develops further either through corporations or cooperatives? What will be the advantages and disadvantages of the system itself?

This development is most often referred to as integrated or contract farming.

My major interest is in how the farm partners in this system are going to fare as it is more extensively adopted and what its effects may be upon those farmers who may not wish to participate in it.

We have seen contract farming for many years, in canning crops, for instance. A farmer contracts with the cannery to raise certain acres of specified crops at a predetermined price per unit of product when it is ready for the cannery. But, when we tie contracts into so-called integrated agriculture we find a quite different situation.

Integration in agriculture is not new either. An operating and marketing farmer cooperative is integration on a partial scale. It integrates the processing and marketing of its owner's products. My concept of full integration in agriculture is an operation where one management group plans and controls the production, processing and marketing of a farm product, at least as far as the retail level and in some cases all the way to the consumer's home. So our operating, marketing cooperatives have to take one more step before they embody complete integration. That is participation in production planning and financing as well as the processing and marketing of the product.
In general, when we speak of integrated agriculture, we are thinking about a system under which an individual farmer has entered into a contract with a feed company, food processing and marketing company, or a cooperative engaged in similar activities. Under this contract, the corporation or cooperative which may be a combination of a seller of farm supplies and a marketer of farm products, plans, controls, and usually largely finances the farm production with the farmer furnishing the facilities and providing the labor. (For convenience I will refer to these corporations or co-ops as the company.) Sometimes the company provides some of the facilities also. The company at all times owns the crop in whatever form it may be and when it is ready takes it from the farm, processes and markets it. Usually the farmer receives a moderate weekly cash payment plus some percentage of the final profits, if there are any. There are, however, many variations in these contracts. In fact, in one line of development, the so-called "cow pool" system of milk production, the set-up is somewhat reversed from what I have just described. A cooperative or an outside corporation furnishes the facilities and the labor while the farmers furnish the cows and usually the forage, sometimes grain also. In all cases, however, the company provides the management and has full control over the operation.

You will note that the common basic feature of all these variations of contract-integrated farming is the fact that the farmer turns the control of his farm production, and, if a dairyman, his cows over to someone else.

It may well be that this system will prove to have many advantages for the farmers who participate in it. It may become the only way that most people can be farmers as inflation increases and the financial risks in farming increase with the trend toward larger businesses and smaller margins of profit per unit of production.

The big question is: Who is going to control agriculture in the future if this system comes to prevail? Farmers, or outside corporations where management's major interest is profits for stockholders who own the corporations?

As I mentioned, this type of farm production has been around for some time but in the past it might be likened to a small shrub spreading slowly and largely unnoticed in the shade of the agriculture tree. Recently it has begun to grow like "Jack's bean stalk", and some people are predicting that it will shoot up until it overshadows the tree and smothers out the old long-established branches. Its lusty growth is attracting the attention of many ambitious farmers and young men who would like to become farm operators. Some have climbed aboard and others are thinking that they would like to.

It has now been quite a few years since my mother read to me the story of "Jack and His Bean Stalk" but as I recall, Jack, after climbing on to the bean stalk suddenly found himself up in the air and no way to get back.

Before committing ourselves to this system of farming let us make certain that we have available a ladder over which we can safely back down and not get left up in the air if we find the system unfavorable to our interests.
How can we provide such protection? How can we be assured that farmers will have a voice in determining the policies under which this system will operate if it continues to grow?

It has already advanced farther than many of us realize and in several branches of agriculture. Fortunately, while there is still time for most of us to plan, and act, to keep it under our control and direct its course, we have the opportunity to look at one branch of agriculture where integration and contract production has fully taken over. We should study carefully what has happened to farmers in that field and why it happened.

I refer to broiler raising where well over ninety percent of the broilers in this country are raised under contracts. Contracts are between the men of the broiler farms and feed dealers, food processor or cooperatives engaged in those activities.

It would appear that there are three phases that agricultural integration goes through before reaching completion. The first is the gathering of enough of those engaged in a particular branch of agriculture into the system so that it supplies the market and no one can engage in the production of that product except through the system. Apparently, the first phase has been completed in the broiler raising field. I am informed that practically all facilities for processing broilers are now owned or controlled by the contracting companies. A carefully planned supply of contract raised birds are coming along every day to keep those plants busy and to fully meet the market's requirements. They have no interest in or need for any other birds. Broiler raisers complain bitterly that the contracts they have to sign, now that they are all in, barely provide them with enough to live on. Yet their only alternative is to go out of business. They can still raise birds as independent operators if they wish, but, other than what they can peddle to their neighbors, they can't sell them. Even if they hand dress, they can't find anyone, other than very small food stores, that will buy them. The big companies have the market covered with their ever-ready supply of birds of all sizes and grades in any quantity wanted.

To say it bluntly, the broiler growers have climbed a "Jack's bean stalk" and found that there are no profits up there and no way to get back except to jump off by going out of business.

I think the broiler industry is now in the midst of the second phase of integration. A squeeze-out process among the companies involved will result in control of the business eventually being concentrated in the hands of a few of the financially strongest companies.

It would seem that a major factor in this sudden growth of integration—I use the word for want of a better one—has been the very keen business competition in all lines that has developed since the backlog of war-period demand for goods was supplied and sharply reduced margins became the pattern. When you have a high overhead resulting from expensive plant buildings and costly mechanization, it often puts a company in a position where volume determines whether the operation shows a profit or a loss. Near capacity volume is essential. Some feel that manufacturers and poultry processors and marketers conceived the idea of offering to fully finance broiler growers under a contract system in the belief
that the could, by that method, get business away from their competitors and obtain the added volume they badly needed. But, of course, their competitors for the most part didn't just stand around and let their customers leave them. They went into contracts also. Since then all have been encouraging more broilers to eat more feed and provide more volume for processing and marketing facilities. The result: too many broilers.

For long months now the market price of broilers has been well below the cost of raising and marketing them.

The people on the broiler farms have to be given at least enough money to pay their grocery bills to keep them at the business. Losses beyond that have to be borne by the companies. A man from the south told me a short time ago of an outfit that was paying some of their growers not to raise birds, figuring that they would lose less that way if they had to handle them at a loss — hoping, of course, that conditions would soon improve. It is quite evident that they can't do this for long.

I have no personal direct knowledge but at a recent national meeting of agricultural leaders I heard it freely predicted in a rump evening session that a lot of feed companies were soon going to either go broke or have to consolidate with stronger companies.

When this consolidation has been completed, (observe what has happened in the automobile industry), we will then have reached the final phase of integration, the business controlled by a handful of national organizations.

At that point something will appear in broiler raising that a majority of individual farmers have refused to consider — production control.

These few companies will quietly get their heads together and from then on no more birds will be raised than can be sold at a profit.

But the men and women who raise the birds will never see much of those profits. There is one small glimmer of hope in the situation. A few farmer-controlled cooperatives have gotten into this game.

I know they will do what they can to protect the growers. But some who are closer to the business than I am fear that the percentage of the business held by the co-ops is so small that they cannot be very effective; even a question if they can stay in the game.

I would point out that this system with the expert attention and research that has been devoted to the business by the companies involved is producing better broilers with less grain and less man hours than the growers as independent operators probably would have attained in many years.

We can see that what this system has done to the broiler growers is not desirable, but I look upon this evidence as a caution signal to us, not as a stop signal. I am not suggesting that we should fight this development. If it is economically feasible we can't stop it. But let us never forget that; like fire, it may be a good servant, but it is evident that it can also be a harsh master if we allow it to get the upper hand.
It may be that something will happen that will slow up or stop this development. I can think of one or two things that might—but we had better not depend upon it. We had better be making plans as to how we can direct, control and take advantage of it if it does take hold in our fields of endeavor.

Before we can plan soundly we must appraise. At this stage I do not know that anyone can forecast accurately if, where and how far this system will spread. There are many who should be far better qualified than I to do this. However, I have a few ideas and having asked me to get up and talk, you will have to listen to them.

Will it grow and spread? We know that it takes two parties to make a deal. We will not have integration and contract farming unless there are corporations that want it and also farmers that want it.

What incentive is there for the corporation— for the farmer?

I have already discussed the incentive for the corporations. Contracts provide them with captive markets for their products or captive supplies for their processing marketing facilities. Presumably you can get a little more for a ton of feed and pay a little less for a hundredweight of milk when you have the man who tends the cows tied up with a contract than you could in open competition. I doubt if any cooperative has been eager or will be eager to enter this system. But I would point out that when one or two groups in an area start it the rest have to follow suit or lose their business. I do not mean just a little loss of business. I mean so much loss that it may well bankrupt them. For many it may mean just that in any case, whether they get in or whether they stay out.

Now what about farmers, why do they become interested?

For one thing, we are aware that for several years now most agricultural economists, many agricultural publications, some farmers' organizations and our Washington administration have been telling us farmers that we must become more efficient; produce at a lower cost so that consumers will buy more...to put in stomachs that their doctors tell them are already too full.

Most of these advisors indicate that the way to become most efficient is to have a large, fully mechanized operation so that a small margin on many units will provide a livelihood.

A lot of our people believe this. And far be it from me to argue with them. They may be right. This thinking, combined with a national trait that takes pride in becoming ever bigger and more complicated, is causing a considerable number of our small farmers to want to become big farmers, by today's standards. And some of the big farmers are desirous of becoming bigger farmers. And, of course, there are always ambitious young men who want to become farm operators and are convinced that they have no chance of success unless they start on a large scale.

Practically all of these people have one common problem that stands in their way...how to finance the big deal. Or, if they find a regular credit organization that will loan them the money, they hesitate to put such a heavy debt burden around their necks and assume the greater risks that go with conducting a business largely on borrowed capital.
When a big company comes along and offers to assume a good portion of the financing and the financial risks in a large farm operation, these men see a chance to achieve their ambitions. They tend to reach for what looks like opportunity without giving too much thought to what the ultimate results may be. They see themselves freed to concentrate on production without the worries of purchasing many of their supplies and marketing their product. Their partner, the company, will do all of those things for them.

Apparently there are strong incentives on both sides. The presently well-established large farmer may not be interested. But when he retires, what about the young family with little capital who would like to take over. As I pointed out, let this develop far enough, as it has in broilers, and you have no choice. It is evident that some fields of agriculture will attract it more rapidly than others. Some may never use it.

We observe that this system overcomes what has been a major problem of corporation farming in the past—the lower efficiency of hired management and labor. Under most of these contracts the on-the-farm manager, who is supervised by a company representative, has an incentive to work hard and manage well. Part of his income is a share in the profits, small though it may be. The more complete mechanization that the company may help him obtain enables him to get the work done with less hired help.

It also eliminates a problem that the individual farmer has faced in marketing due to his small and often seasonal volume of product.

In the so-called cow pool system of milk production, it solves the problem of the long hours that dairying has always demanded. In the cow pool, the milkers undoubtedly will work a 40-hour week while the farmer, just raising forage for the cows and growing replacements, will have a much easier life.

All in all it looks to me as though the basically favorable features of this system plus its superficial and perhaps misleading attractions will tend to make it spread far beyond where it now is if experience proves it to be practical. It may be only a small percentage of the present total of farmers who will embrace it, but through large units of operation those few may produce a very high percentage of the total volume.

There is another factor involved that I have not yet mentioned that causes me to believe that at some time in the future a major part of agricultural production, in many lines at least, will be under contract.

The factor I refer to is the demands of Mrs. Housewife. Today when she goes into a store she expects to find every kind of food product there every day in the year. She also expects it to be there in the size and quality that she may have in mind on that particular day. If she does not find this variety in the store where she has been in the habit of shopping, she starts looking for another store where she can find it. That is a major reason for the tremendous growth of the big chain food stores. It is only a matter of time before they will be doing 80 to 90 percent of the country's food retailing. I understand some of them are looking with interest at the integration idea — wondering if they should not control the production and processing as well as the retailing of their products. On the other side, it is apparent the Federal Justice Department does not look favorably upon that idea.
These chains are volume buyers. Knowing that they must have a wide variety of sizes and qualities at all times, they seek suppliers who will accept orders for months ahead, suppliers who can ship a carload or a train load of certain grades on specified dates. When they find such a supplier, they have no further interest in the man who has only small lots of varying quality at irregular intervals.

How is even a large supply company going to be certain that it can meet these demands of the housewife as passed through the chain store buyer unless it can plan and control its supplies through contract farm production?

At this moment I am not quite as certain as some people that future farm production will all be from very large farm units, but I believe that much of it in some lines will be produced under contracts.

I have interpreted our subject title as referring to agriculture in general and have so treated it although well aware that your major interest as well as mine is in the dairy field.

So let's take a minute to look at integration and dairying. I think that dairymen have done a more satisfactory job for Mrs. Consumer than have some other farm groups. We long ago overcame the natural inclination of the cow to produce milk for six months and be dry for six months. Since then we have made available one or twenty bottles of milk to put on Mrs. Housewife's doorstep or in her favorite store whenever she wants it or wherever she is. And with the possible exception of butter, we today offer her a very uniform high quality in all dairy products. We are largely meeting her demands.

The danger of going broke quickly, as the result of one or two bad years, is not as great in dairying as in some agricultural pursuits. Therefore, there is not quite as much interest on the part of dairymen in taking on a partner to share their financial risks. To date, the development of integration and contracts in dairying has largely been in the so-called cow pool. We are, however, beginning to hear a little about contracts between fluid milk distributors and dairymen with financial investments in the dairy by the dealers.

The cow pool first developed in the west, has been moving eastward until at least one is in the advanced planning stage at the western edge of our Northeast dairy region. I hear only rumors as yet that a group of Michigan dairymen are planning to bring two thousand cows east and establish a pool near whichever may appear to be the most desirable coast market. I learn that equipment manufacturers are anticipating a rapid increase in this field. Field representatives in our organization report quite a lot of interest and talk among dairymen.

I indicated that the cow pool system may make dairying an easier way of life. But if such pools come, they certainly will bring problems that may upset our established procedures. For instance, how can the Secretary of Agriculture or any state authority enforce minimum prices to a producer under market orders when the producer has put his cows in a cow pool and agreed by contract to take what is left from the sale of the milk after the pool has deducted the expenses of feeding, milking, vet service, use of building and equipment, etc., plus credits for the forage and grain that he may supply the pool.
How can a dairy co-op have members and milk to market, if dairymen do their dairying through a cow pool unless the co-op runs the pool? These problems have already arisen in a mid-west area and been brought to the Dairy Division for decision. I do not know what the final decision will be, but understand that the first thought was that a man was no longer a dairyman after he put his cows in one of these pools.

Has the Secretary the authority to make a milk distributor participate in a market-wide pool if he acquires all his milk from a cow pool (or pools) that he operates, even though the cows are in there on contract? The courts may have to decide.

And finally, who are going to be our future dairymen if cow pools come into general use? I read that in one western town the barber has a string of cows in the cow pool. Also, if corporate operators of a pool find there are profits from the cows in the pool after paying all expenses will they not decide to own the cows themselves?

From another angle: Also on the western edge of our Northeast milkshed, I understand that a small milk distributor is building a 200-cow dairy barn on a farmer's place and will buy the additional cows that he will need to fill it. This is unquestionably a contract deal that protects the dealer's investment and gives him control over the volume and quality of production. This may provide his entire milk supply — one outlet for milk that will be shut off for all other dairy farmers. Only one instance, but will it spread?

What can we do to assure ourselves control of the dairy production industry of the future if it moves to the integrated system? How can we as farmers assure ourselves of some chance to participate in its profits beyond what someone at a distance may decide has to be given us to keep enough of us on the job?

Here is where we get back to the title of our subject.

Integration of agriculture with its contract farming can develop from two directions. From the marketing end down to the farm or from the farm end up to the market.

For convenience we will say from the top down and from the bottom up. If it comes from the top down, it will be developed by the processing and marketing corporations assisted by feed companies and the like. The major interest of the policy-making management in this kind of a development will be profits for the stockholders of the corporations involved with as little going to the farmer as is found necessary to keep him on the job.

If it comes from the bottom up, it will be developed by farmers through large marketing cooperatives or large marketing federations of smaller marketing co-ops. If it develops in this manner farmers will control the policies and participate in any profits that may be made.

This will be the difference between corporation farming and cooperative farming in the future; how it goes will depend upon our farmers themselves.
Will farmers in sufficient number rally to the support of and help strengthen the large and well-managed marketing cooperatives that we must have to compete with large corporations in meeting the exacting demands of Mrs. Consumer as she does her food shopping? Will the more numerous small farmer members allow cooperatives to move into integrated contract farming? There is a fear that the small farm will be pushed out of existence if this system grows. I would point out that his cooperative is the only organization that has any responsibility to look out for the small farmers. But if he prevents that co-op from preparing itself to meet competitive offers in the contract production field with whatever financial investments in the production end are necessary, the co-op will lose its large or would-be large farmers and the day will come when there will no longer be a co-op to look out for the small farmer.

With full recognition of and appreciation for the service that has been rendered farmers by their bargaining cooperatives in the past years, I must say that I can see no place for them in an integrated agriculture. The most they will be able to do is whistle past the graveyard.

If we farmers are to protect ourselves, keep control of our business and be able to take advantage of the opportunities that a new system of agricultural production and marketing may bring, we can do it and only do it through very large, financially strong and expertly managed marketing cooperatives. I hope we have sense enough to permit, help and urge our marketing cooperatives to get in position to successfully meet the challenge of this form of agriculture if it continues to grow.