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MILK MARKETING ADJUSTMENTS

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HEARINGS
BEFORE THE
SUBCOMMITTEE ON DAIRY
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
EIGHTY-EIGHTH CONGRESS

FIRST SESSION

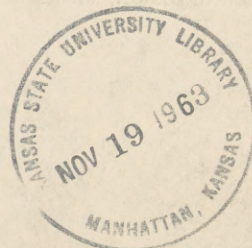
ON

H.R. 7120, H.R. 7261, and H.R. 8357

SEPTEMBER 17 AND 18, 1963

Serial Z

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MILK MARKETING ADJUSTMENTS

TUESDAY, SEPTEMBER 17, 1963

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DAIRY OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1310, Longworth House Office Building, Hon. Lester R. Johnson (chairman of the subcommittee) presiding.

Present: Representatives Johnson of Wisconsin (presiding), Hagan of Georgia, Olson, Rosenthal, McIntire, Quie, Beermann, and Belcher.

Also present: Christine S. Gallagher, clerk; Hyde H. Murray, assistant clerk; and Robert Bruce, assistant counsel.

Mr. JOHNSON of Wisconsin. The subcommittee will please come to order.

I am going to ask unanimous consent at this time to submit my statement for the record. Is there any objection? If not, it will be made a part of the record at this point.

(The prepared statement of Hon. Lester R. Johnson follows:)

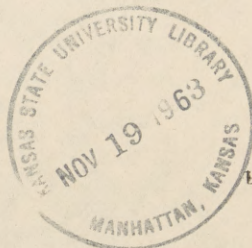
STATEMENT OF HON. LESTER R. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Fellow members of the House Dairy Subcommittee, today we are resuming hearings on the dairy situation and on various proposals which have been introduced in the House to raise the income of dairymen and cut burdensome dairy surpluses. In addition to hearing the recommendations of the U.S. Department of Agriculture, we will be taking testimony on dairy bills introduced since the hearings we held on March 19, 20, and 21 of this year.

Included is my bill, H.R. 7261, which proposes a two-way attack on overproduction and depressed income in the dairy industry.

It is an inescapable fact that milk is marketed in the United States in two different ways. A great deal of milk, including over 75 percent of the milk produced in my home State of Wisconsin, is sold in a relatively free market.

However, part of the milk produced in this country is sold under Federal milk marketing orders. Federal orders are now operating in 83 fluid milk markets in the United States. During 1962, orders regulated the handling of 51.6 billion pounds of milk produced by over 186,000 dairy farmers.



As you know, the Federal milk marketing orders guarantee a premium price for class I fluid milk. The very nature of the pricing structure in market order areas encourages the production of surplus milk, which is then dumped into a manufacturing milk market already plagued with surplus problems of its own.

It is impossible to solve the problem of the depressed income of dairy farmers without first solving the problem of overproduction, which has caused milk prices to fall in the first place. It is equally impossible to expect any great improvement in the price situation by cutting surpluses in the manufacturing milk areas so long as the Federal market order areas are allowed to overproduce at will.

In Federal milk marketing order areas, my bill provides for producer allotments based on the market requirements in the highest use classification, plus essential reserves. Instead of receiving a uniform blend price, producers would get a higher return on milk covered by allotments and a lower price for milk in excess of allotments.

Establishment of allotments for any milk market order area would require the approval of two-thirds of the producers voting in a referendum. Disapproval of the order provisions authorized in this bill would not be considered as disapproval of any other provisions in the milk market order. However, a "no" vote on allotments would be followed by hearings to determine if price adjustments were needed to remove the incentive for production of surplus milk.

In addition to protecting manufacturing milk areas from surplus dumping from order areas, my measure authorizes a 2-year program of direct payments to producers who voluntarily agree not to expand their production beyond that of the base year, or a percentage of the base year. The Secretary of Agriculture would be given the responsibility for establishing a marketing base designed to insure an adequate supply of dairy products but not a surplus.

Direct payments would be made to complying producers outside order areas on their marketings at a rate of up to 50 cents per hundred pounds of milk or milk equivalent. Surplus reduction payments to producers under Federal marketing orders would be made on the amount reduced from their base quantity. Such payments could be made at a rate of up to \$2.50 per hundredweight of reduction in marketings. The bill retains the present floor of 75 percent of parity for dairy price supports.

In order to show how this program of surplus reduction payments would operate, I requested

U.S. Department of Agriculture specialists in the field of dairy economies to compute cost and income figures based on certain assumptions concerning the program. They prepared a chart which compares the present dairy price support program with the proposed dairy surplus reduction program, using two examples of the latter in order to show the results which would be obtained with two different levels of payment. I would like to have that chart printed in the hearing record at this point.

Estimated results of proposed dairy program providing adjustment incentive payments to Federal order producers and to manufacturing grade milk producers as compared to present program

Item	Unit	Present program		Incentive payment program	
		1962-63 marketing year	1963-64 marketing year	Example I ¹	Example II ²
	(1)	(2)	(3)	(4)	(5)
Support level: By purchases.....	Hundredweight.....	3.11	3.14	3.14	3.14
Milk production.....	Billion pounds.....	125.5	125.5	121.9	120.9
Marketings (milk equivalent):					
Fluid milk and cream.....	do.....	54.0	54.4	54.4	54.4
Manufacturing milk and cream.....	do.....	64.0	64.0	60.4	59.4
Total.....	do.....	118.0	118.4	114.8	113.8
Commercial demand (milk equipment):					
Fluid milk and cream.....	do.....	54.0	54.4	54.4	54.4
Manufacturing milk and cream.....	do.....	55.1	55.2	55.2	55.2
Total.....	do.....	109.1	109.6	109.6	109.6
Surplus ³	do.....	8.9	8.8	5.2	4.2
CCC net expenditures: Purchases (gross).....	Million dollars.....	511	484	339	296
Reduction payments ⁴					
Quantity (milk equivalent).....	Billion pounds.....			2.0	2.0
Rate per hundredweight.....	Dollars.....			2.00	2.00
Total.....	Million dollars.....			40	40
Production payments: ⁵					
Quantity (milk equivalent).....	Billion pounds.....			18.2	17.2
Rate per hundredweight.....	Dollars.....			.20	.40
Total.....	Million dollars.....			36	69
Total outlay.....	do.....	511	484	415	405
Sales proceeds.....	do.....	31	31	31	31
Total net program expenditures.....	do.....	480	453	384	374
Dairy farm cash receipts:					
From marketings.....	do.....	4,836	4,871	4,807	4,775
Payments.....	do.....			76	109
Total receipts.....	do.....	4,836	4,871	4,883	4,884
Effect on net producer income.....	do.....		0	+88	+110

¹ Assumes that 50 percent of manufacturing milk producers participate with payments of 20 cents per hundredweight to those who reduce 5 percent, and that 50 percent of the producers in the major Federal order markets reduce production 10 percent with payments of \$2 per hundredweight for such reduction.

² Assumes that 50 percent of manufacturing milk producers participate with payments of 40 cents per hundredweight to those who reduce 10 percent, and that 50 percent of the producers in the major Federal order markets reduce production 10 percent with payments of \$2 per hundredweight for such reduction.

³ Milk equivalent milkfat basis.

⁴ Payment on reduction below base in Federal order markets.

⁵ Payment on manufacturing grade milk.

Example I is based on the assumption that 50 percent of manufacturing milk producers participate, with payments of 20 cents per hundredweight being made to those who reduce production 5 percent. It is also assumed that 50 percent of the producers in the major Federal order markets reduce production 10 percent and receive payments of \$2 per hundredweight for this reduction.

Under these conditions, the proposed dairy program would raise the net income of dairymen by \$88 million. Our current dairy surplus of 8.8 billion pounds a year would be cut to 5.2 billion pounds a year.

During the 1962-63 marketing year, the Commodity Credit Corporation used \$511 million for the purchase of surplus dairy products. The expenditure for the 1963-64 marketing year is estimated at \$484 million.

Under my dairy surplus reduction program, that figure would be cut to \$339 million a year. Even when the reduction incentive payments are added to the cost of buying dairy surpluses, my proposed program would cost only \$384 million.

The assumptions used in example II bring even greater savings to taxpayers and more income to dairymen. Example II is based on the assumption that 50 percent of manufacturing milk producers participate, with payments of 40 cents per hundredweight to those who reduce marketings 10 percent. It is also assumed that 50 percent of the producers in the major Federal order markets reduce production 10 percent, with payments of \$2 per hundredweight for such reduction.

Under the conditions set forth in example II, dairymen would benefit from a \$110 million boost in annual net income. Our dairy surplus would be cut in half, dropping from the present figure of 8.8 to 4.2 billion pounds a year. As a result, the Commodity Credit Corp. would have to spend only \$296 million instead of \$484 million for the purchase of surplus dairy products. The total cost of the program, including the reduction payments, would be \$79 million less than the estimated net cost of the present program for the marketing year of 1963-64.

This type of program has two big advantages. In the first place, it would hold the line against the normal 3-percent-a-year increase in milk production which is common in the industry. At the present time, we need such an increase like we need a hole in the head.

Secondly, this program would give the producers of manufacturing milk a much-needed boost in income without causing them to increase milk production. The alternate method of raising dairy farmers' income by increasing dairy price supports has the undesirable effect of encouraging more milk production.

Mr. JOHNSON of Wisconsin. Today we are resuming hearings on dairy legislation and on various proposals which have been introduced in the House to raise the income of dairymen and cut burdensome dairy surpluses. In addition to hearing the recommendations of the U.S. Department of Agriculture, we will be taking testimony on dairy bills introduced since the hearings we held on March 19, 20, and 21 of this year.

The three bills before the committee are H.R. 7120, H.R. 7261, and H.R. 8357.

(The bills follow:)

(H.R. 7261, by Mr. Johnson of Wisconsin, follows:)

[H.R. 7261, 88th Cong., 1st sess.]

A BILL To amend the Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended, and to encourage adjustments in milk marketing, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended, is further amended by adding at the end of section 8c(5) the following new subparagraph (H):

"(H) Notwithstanding any other provision of this section, providing—

"(1) for allocating, or providing a method for allocating, to each producer under a marketing order, a share of the total sales of milk necessary to

insure meeting the requirements for milk in the highest use classifications under the marketing order giving consideration to the reserves essential thereto, which share shall be determined on the basis of total deliveries of milk made by each such producer during the year 1962, or such other representative period as the Secretary may prescribe as more appropriate for any or all orders, due allowance being made in the provisions of the order for (a) abnormal conditions, (b) hardship cases, and (c) producers under the order engaged in milk production at the time provisions hereunder are incorporated in the order but who did not produce milk during all or part of the representative period. Dairy farmers who were producing and marketing milk prior to the date when provisions hereunder were incorporated in the order and who were not on such date delivering milk as producers under the order shall be provided with respect to milk delivered under the order allocations on the same basis as those who were producers under the order when such provisions became effective. Provision shall be made for allocating to any new producer under an order who was not engaged in dairy farming prior to the incorporation in the order of provisions hereunder an equitable share of the allocated sales on such terms and conditions as prescribed by the Secretary of Agriculture, due consideration being given to the current and prospective supply conditions in the regulated market. Allocations to producers under this subparagraph may be transferable on such terms and conditions as the Secretary of Agriculture may prescribe if he determines that transferability will be in the best interest of the public, existing producers, and prospective new producers. The allocations or bases hereunder may be adjusted from time to time or new allocations or bases may be established by amending the order or under provisions incorporated in the order;

"(ii) that in distributing the amounts of money required to be paid by handlers for milk received from producers under an order each producer shall be paid (1) for the amount of milk represented by his allocation a blend price representing the utilization of such higher class uses plus reserve and any residual values resulting from the pricing of surplus or excess milk under (2) or (3) hereof, (2) for milk delivered by him which exceeds his allocation but does not exceed his deliveries during the representative period or such base as may be established for him, at the lowest class price specified in the order, and (3) for all milk in excess of his representative period marketings or such base as may be established for him hereunder, at the price specified in (2) hereof or a lower price where this is determined necessary to discourage such excess production. The payments under (1) and (2) above shall be subject to adjustments prescribed in the order under section 8c(5) (B) or other provisions of the Act;

"(iii) in marketing orders where individual handler pools are approved as provided by subparagraph 8c(5) (B) (i) the provisions of this subparagraph may be applied to each handler individually and to the producers delivering milk to such handlers;

"(iv) in the case of any producer who during any accounting period delivers a portion of his milk to persons not fully regulated by the order, provision may be made for reducing the allocation of, or payments to be received by, any such producer to compensate for any marketings of milk to such other persons for such period or periods as necessary to insure equitable participation in marketings among all producers;

"(v) the order may provide for such reports and the keeping of such books and records by producers and by the person or persons to whom he may dispose of milk as the Secretary may prescribe and upon request of the Secretary such person or persons shall make required records available for inspection;

"(vi) no handler or cooperative association shall make payment to a producer on milk marketed in excess of his allocation at a rate higher than that prescribed for such milk;

"(vii) the provisions authorized under this subparagraph may be made applicable to a handler's own production of milk;

"(viii) the Secretary of Agriculture shall hold hearings to consider incorporating the provisions authorized under this subparagraph in any order regulating the marketing of milk in a market whenever he has reason to believe that marketings are in excess of the fluid requirements and the necessary reserves related thereto. Order provisions under this subparagraph shall not become effective in any marketing order unless separately

approved by producers in the same manner provided for the approval of marketing orders. Disapproval of order provisions under this subparagraph shall not be considered disapproval of the order or of other terms of the order, but in the event of disapproval the Secretary shall promptly initiate further hearings for the consideration of such adjustments to the prescribed prices under the order for the highest use classifications as may be necessary to remove incentive for the marketing of excessive supplies under such order;

"(ix) any producer for whom an allocation or base is established under the authority of this subparagraph may obtain a review of the lawfulness of his allocation or base as prescribed by the order and rules and regulations thereunder, which shall constitute the exclusive procedure for review thereof and section 8c(15) (A) of this title shall not apply thereto. Under such order, rules, or regulations, any officers or employees of the Department or any committees or boards created or designated by the Secretary of Agriculture may be vested with authority to perform any or all functions in connection with such review proceedings, including ruling thereon. Committees or boards created or designated for this purpose shall be deemed agencies of the Secretary within the meaning of subsection 8c(7)(C) and section 10 of this title. The ruling upon such review shall be final if in accordance with law. The producer may obtain a judicial review of such ruling in accordance with the provisions of section 8c(15) (B) of this title; and

"(x) the provisions of section 8a(5) shall not apply to any producer in the application of this subparagraph or regulations issued pursuant thereto."

SEC. 2. (a) Whenever the Secretary of Agriculture determines that a program of surplus adjustment payments to dairy farmers would result in net savings to the Government under the dairy price support program, the Commodity Credit Corporation is hereby authorized to make payments to dairy farmers who agree to restrict their marketing of milk and butterfat during any one or more marketing periods as determined by the Secretary to the quantity of milk marketed by them during the base period, or a percentage thereof: *Provided, however*, That no payment shall be made with respect to marketings after the 1st day of April 1965. Payments hereunder shall be at such rate, not to exceed 50 cents per hundred pounds of milk or milk equivalent, as the Secretary determines appropriate to effectuate a restriction in the marketing of surplus dairy products and shall be made to producers who agree to limit their marketings to the quantity determined by the Secretary, on the quantity of milk that they market, except that payments to producers marketing their milk under Federal milk marketing orders shall be made on the quantity by which they reduce their marketings from their base quantity, at such rates, not to exceed \$2.50 per hundred pounds of reductions in marketings, as the Secretary determines. Such payments may be made at such times, in such areas, and upon such terms and conditions as the Secretary determines appropriate to protect the interests of the Government and accomplish the objective of surplus reduction.

(b) The Secretary shall establish a marketing base for each producer in the continental United States, excluding Alaska, who desires to enter into an agreement with Commodity Credit Corporation pursuant to subsection (a) of this section. Such marketing base shall be the number of pounds of milk, or the number of pounds of milkfat, or such units of dairy products as the Secretary may deem appropriate for the administration of this subtitle which is the lower of (i) the producer's marketings during the marketing year ending March 31, 1963, or (ii) the Secretary's estimate of what would be marketed in a marketing year by the producer based on the rate of his marketings when he enters into the agreement with Commodity Credit Corporation, adjusted for seasonal variation. In establishing a marketing base, the Secretary may make such adjustments in the producer's marketings as he deems necessary for flood, drought, disease of herd, personal health, or other abnormal conditions affecting production or marketing, including the fact that the producer may have commenced production and marketing after April 1, 1962. A producer's marketing base for the marketing year shall be apportioned by the Secretary among quarterly marketing periods thereof in accordance with the producer's prior marketing pattern, subject to such adjustments as the Secretary determines necessary to enable the producer to carry out his herd management plans for the marketing year. The quantity thus apportioned to a quarterly marketing period shall be the producer's marketing base for such period.

(c) The Secretary shall prescribe such regulations as are necessary for the enforcement and the effective administration of this Act and may require buyers, processors, and handlers of milk and butterfat to furnish reports with respect to purchases and utilization of milk and butterfat.

(H.R. 7120 by Mr. Olson of Minnesota follows:)

[H.R. 7120, 88th Cong., 1st sess.]

A BILL To amend the Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended, and to encourage adjustments in milk marketing, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended, is further amended by adding at the end of section 8c(5) the following new subparagraph (H):

"(H) Allocating, or providing a method for allocating, to each producer, under a marketing order a percentage of total sales, as defined in the order; in any one or more use classifications higher than the lowest priced used classification, which percentage shall be determined by relating total deliveries of milk accounted for under the order made by each such producer during a representative period, as determined in the order, to such total sales during such representative period, due allowance being made, in the provisions of the order, for abnormal conditions and hardship cases. Such allocations may be adjusted from time to time, or new allocations may be made, by amending the order. Whenever any dairy farmer desires to become a producer under an order incorporating provisions authorized by this subparagraph a percentage of total sales shall be allocated to him on a basis comparable to the allocations made to producers who delivered milk under the order during the representative period and allocations theretofore made shall be adjusted for this purpose. When a plant becomes a pool plant, by transfer or otherwise under an order incorporating provisions authorized by this subparagraph, a percentage of total sales shall be allocated to producers delivering to the plant in the same manner as to existing producers under the order in which the plant has attained pool status. Allocations to producers under this subparagraph may be transferable to other producers on such terms and conditions as the Secretary of Agriculture may prescribe if, after a hearing establishing or amending the order, he determines that transferability will be in the best interest of the public, existing producers, and prospective new producers. The provisions of this subparagraph may be applied notwithstanding subparagraphs 8c(5) (B) and 8c(5) (G). All of the remedies available to handlers under section 8c(15) shall be available to producers for the purposes of this subsection. Order provisions under this subparagraph shall not become effective in any marketing order unless separately approved by producers in the same manner provided for the approval of marketing orders. Disapproval of order provisions under this subparagraph shall not be considered disapproval of the order or of other terms of the order. Order provisions under this subparagraph may be terminated by separate vote in the same manner provided for the termination of marketing orders. In the case of marketing orders calling for individual handler pools under subparagraph 8c(5) (B) (i), the allocations provided for herein may be applied to each handler and to the producers delivering milk to such handler."

SEC. 2. (a) Whenever the Secretary of Agriculture determines that a program of surplus adjustment payments to dairy farmers would result in net savings to the Government under the dairy price-support program, the Commodity Credit Corporation is hereby authorized to make payments to dairy farmers who agree to restrict their marketing of milk and butterfat during any one or more marketing periods as determined by the Secretary to the quantity of milk marketed by them during the base period, or a percentage thereof: *Provided, however,* That no payment shall be made with respect to marketings after the 1st day of April 1965. Payments hereunder shall be at such rate, not to exceed 50 cents per hundred pounds of milk or milk equivalent, as the Secretary determines appropriate to effectuate a restriction in the marketing of surplus dairy products and shall be made to producers, who agree to limit their marketings to the quantity determined by the Secretary, on the quantity of milk that they market, except that payments to producers marketing their milk under Federal milk marketing orders shall be made on the quantity by which they reduce their marketings from their base quantity, at such rates, not to exceed \$2.50 per hundred pounds of re-

ductions in marketings, as the Secretary determines. Such payments may be made at such times, in such areas, and upon such terms and conditions as the Secretary determines appropriate to protect the interests of the Government and accomplish the objective of surplus reduction.

(b) The Secretary shall establish a marketing base for each producer in the continental United States, excluding Alaska, who desires to enter into an agreement with Commodity Credit Corporation pursuant to subsection (a) of this section. Such marketing base shall be the number of pounds of milk, or the number of pounds of milkfat, or such units of dairy products as the Secretary may deem appropriate for the administration of this subtitle which is the lower of (i) the producer's marketings during the marketing year ending March 31, 1963, or (ii) the Secretary's estimate of what would be marketed in a marketing year by the producer based on the rate of his marketings when he enters into the agreement with Commodity Credit Corporation, adjusted for seasonal variation. In establishing a marketing base, the Secretary may make such adjustments in the producer's marketings as he deems necessary for flood, drought, disease of herd, personal health, or other abnormal conditions affecting production or marketing, including the fact that the producer may have commenced production and marketing after April 1, 1962. A producer's marketing base for the marketing year shall be apportioned by the Secretary among quarterly marketing periods thereof in accordance with the producer's prior marketing pattern, subject to such adjustments as the Secretary determines necessary to enable the producer to carry out his herd management plans for the marketing year. The quantity thus apportioned to a quarterly marketing period shall be the producer's marketing base for such period.

(c) The Secretary shall prescribe such regulations as are necessary for the enforcement and the effective administration of this Act and may require buyers, processors, and handlers of milk and butterfat to furnish reports with respect to purchases and utilization of milk and butterfat.

(H.R. 8357, by Mr. Stratton, follows:)

[H.R. 8357, 88th Cong., 1st sess.]

A BILL To amend the Agricultural Marketing Agreement Act of 1937 to encourage a supply of milk more closely related to the demand therefor, and to establish a temporary program of incentive payments to dairy farmers for reducing their production

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Milk Adjustment Act of 1963".

TITLE I—ADJUSTMENTS THROUGH MARKETING AGREEMENTS

SEC. 101. The Agricultural Adjustment Act, as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended, is further amended by adding at the end of section 8c(5) the following new subparagraph (H):

"(H) Notwithstanding any other provision of this section, providing:

"(i) for allocating, or providing a method for allocating, to each producer under a marketing order, a share of the total sales of milk received from producers classified in, and subject to the minimum price or prices applicable to, the highest use classification or classifications under the marketing order and such reserves of producer milk as may be found essential thereto, which share shall be determined on the basis of total deliveries of milk made by each such producer during the year 1962, or such other representative period as the Secretary may prescribe in the order as more appropriate, due allowance being made in the provisions of the order for (a) abnormal conditions, (b) hardship cases, and (c) producers under the order engaged in milk production at the time provisions hereunder are incorporated in the order but who did not produce milk during all or part of the representative period. Dairy farmers who were producing and marketing milk prior to the date when provisions hereunder were incorporated in the order and who were not on such date delivering milk as producers under the order shall upon becoming producers under the order be provided, with respect to milk delivered under the order, allocations on the same basis as those who were producers under the order when such provisions become effective. Provisions shall also be made for allocating to any new producer under an order

who was not engaged in dairy farming prior to the incorporation in the order of provisions hereunder an equitable share of the allocated sales on such terms and conditions as prescribed in the order, due consideration being given to the current and prospective supply conditions in the regulated market. The application of allocations hereunder shall be subject to such provisions as may be incorporated in the order under section 8c(5)(D). Allocations to producers under this subparagraph may be transferable under an order on such terms and conditions as may be prescribed if the Secretary of Agriculture determines that transferability will be in the best interest of the public, existing producers, and prospective new producers. The allocations or bases hereunder may be adjusted from time to time or new allocations or bases may be established by amending the order or under provisions incorporated in the order;

"(ii) that in distributing to producers the amounts of money required to be paid by handlers on milk each producer shall be paid (1) for milk delivered by him which exceeds his allocation at the lowest class price specified in the order and (2) for milk delivered by him within his allocation a blend price, based on utilization in such higher class uses plus reserve, representing his pro rata share of the remaining funds available for current distribution to producers under the order, after the computation has been made under (1) hereof. The payments under (1) and (2) above shall be subject to adjustments prescribed in the order under section 8c(5)(B) or other provisions of the Act and to such provisions as may be incorporated in the order under section 8c(5)(D);

"(iii) in marketing orders where individual handler pools are approved as provided by subparagraph 8c(5)(B)(i) the provisions of this subparagraph may be applied to each handler individually and to the producers delivering milk to such handlers;

"(iv) in the case of any producer who during any accounting period delivers a portion of his milk to persons not fully regulated by the order, provision may be made for reducing the allocation of, or payments to be received by, any such producer to compensate for any marketings of milk to such other persons for such period or periods as necessary to insure equitable participation in marketings among all producers;

"(v) the order may provide for such reports and the keeping of such books and records by producers and by the person or persons to whom he may dispose of milk as the Secretary may prescribe and upon request of the Secretary such person or persons shall make required records available for inspection;

"(vi) the provisions authorized under this subparagraph may be made applicable to a regulated handler's own product of milk;

"(vii) order provisions under this subparagraph shall not become effective in any marketing order unless separately approved by producers in the same manner provided for the approval of marketing orders. Disapproval of order provisions under this subparagraph shall not be considered disapproval of the order or of other terms of the order. Order provisions under this subparagraph may be terminated separately whenever the Secretary makes the determination with respect to such provisions as is provided for the termination of an order in section 8c(16)(B);

"(viii) any producer for whom an allocation or base is established under the authority of this subparagraph may obtain a review thereof as prescribed by the order and rules and regulations thereunder, which shall constitute the exclusive procedure for review thereof and section 8c(15)(A) of this title shall not apply thereto. Under such order, rules, or regulations any officers or employees of the Department or any committees or boards of producers under the order for the purpose may be vested with authority to perform any or all functions in connection with such review proceedings, including ruling thereon. Committees or boards created for this purpose shall be deemed agencies of the Secretary within the meaning of subsection 8c(7)(C) and section 10 of this title. The ruling upon such review shall be final if in accordance with law. The producer may obtain a judicial review of such ruling in accordance with the provisions of section 8c(15)(B) of this title; and

"(ix) the provisions of section 8a(5) shall not apply to any producer in the application of this subparagraph or regulations issued pursuant thereto."

TITLE II—TEMPORARY EMERGENCY ADJUSTMENTS

SEC. 201. In order to accomplish a satisfactory reduction of the surplus within any milk marketing order pending such time as the provisions authorized by section 8c(5) (H) of the Agricultural Adjustment Act may be incorporated in it following the hearing and referendum procedures provided in such Act, the Secretary of Agriculture is hereby authorized through the Commodity Credit Corporation to carry out an emergency dairy surplus reduction payments program as set forth in the following sections of this title.

SEC. 202. The Commodity Credit Corporation is hereby authorized to make surplus reduction payments to producers marketing their milk under the provisions of a Federal milk marketing order who agree to reduce, during any one or more quarterly marketing periods starting October 1, 1963, and ending on the date determined under section 206 their marketings to a level not (i) less than 10 per centum or (ii) more than the larger of 25 per centum or seven thousand five hundred pounds of milk below their normal marketing levels established pursuant to section 203 of this Act for each such quarterly marketing period: *Provided*, That the Commodity Credit Corporation shall, to the maximum extent practicable, limit such agreement so as not to effect adjustments during any one year in any milk marketing order in excess of 10 per centum of the estimated total marketings by all producers in such order during the preceding marketing year. Such payments shall not exceed (i) \$2.50 per hundredweight of milk, basis 3.82 per centum butterfat content, (ii) such rates as the Secretary determines will effectuate voluntary reduction in marketings by producers, or (iii) the cost of acquiring such milk in the form of dairy products had such milk been marketed. A producer who fails to reduce his marketings to the extent required by his agreement shall be eligible to receive the surplus reduction payment on the quantity by which he actually reduced his marketings below his normal marketing level, provided he reduces by as much as 10 per centum of his normal marketing level, but the amount of such payment shall be reduced by an amount equal to 20 per centum of what would have been the payment on the quantity of milk which he failed to reduce. Agreements entered into hereunder may contain such terms and conditions as the Secretary determines necessary to effectuate the purposes of the emergency dairy surplus reduction payments program and to assure that a producer's reduction in marketings is not deliberately offset through a transfer of his milk cows to another producer for the production and marketing of milk.

SEC. 203. The Secretary shall establish a normal marketing level for each producer in the continental United States, excluding Alaska, who desires to enter into an agreement with Commodity Credit Corporation pursuant to section 202 of this Act. Such normal marketing level shall be the number of pounds of milk, or the number of pounds of milkfat, or such units of dairy products as the Secretary may deem appropriate for the administration of this Act which is the lower of (i) the producer's marketings during the calendar year 1962 or (ii) the Secretary's estimate of what would be marketed in a calendar year by the producer based on the rate of his marketings when he enters into the agreement with Commodity Credit Corporation, adjusted for seasonal variation. In establishing a normal marketing level, the Secretary shall make such adjustments in the producer's 1962 marketings as he deems necessary for flood, drought, disease of herd, personal health, or other abnormal conditions affecting production or marketing, including the fact that the producer may have commenced production and marketing after July 1, 1962. A producer's normal marketing level for the marketing year shall be apportioned by the Secretary among quarterly marketing periods thereof in accordance with the producer's marketing pattern, subject to such adjustments as the Secretary determines necessary to enable the producer to carry out his herd management plans for the marketing year. The quantity thus apportioned to a quarterly marketing period shall be the producer's normal marketing level for such period.

SEC. 204. No producer may receive a surplus reduction payment under this title with respect to reductions in marketings occurring more than two years after the enactment of this Act.

SEC. 205. (a) The Secretary shall prescribe such regulations as are necessary for the enforcement and the effective administration of this Act.

(b) Costs incurred in the carrying out of the provisions of this Act shall be borne by the Commodity Credit Corporation and shall be considered as non-administrative expenses of the Corporation.

SEC. 206. No person engaged in the purchase or handling of milk, milk fat, or dairy products shall discriminate against any producer who enters into an agreement with the Commodity Credit Corporation pursuant to this Act. The Commodity Credit Corporation shall not purchase dairy products from any person whom the Secretary determines practices such discrimination. The several district courts of the United States shall have original jurisdiction to hear and determine controversies arising under this section, without regard to the amount in controversy, and to enjoin and restrain any person or persons from discriminating or conspiring to discriminate against any producer in violation of this section.

Mr. JOHNSON of Wisconsin. Our first witness this morning is the Honorable Charles S. Murphy, Under Secretary of Agriculture. We will be glad to hear from you at this time.

STATEMENT OF HON. CHARLES S. MURPHY, UNDER SECRETARY OF AGRICULTURE, ACCOMPANIED BY JULIUS KRAUSE, DIRECTOR OF MARKETING DIVISION, OFFICE OF GENERAL COUNSEL; ROBERT MARCH, ASSISTANT DIRECTOR, MILK MARKETING ORDER DIVISION, AMS; AND H. J. EMERY, DEPUTY DIRECTOR, LIVESTOCK AND DAIRY POLICY STAFF, ASCS, U.S. DEPARTMENT OF AGRICULTURE

Mr. MURPHY. Thank you, Mr. Chairman and members of the committee. I have a rather brief prepared statement which I will be glad to read if I may, and I have with me a number of my colleagues, from the Department of Agriculture, and we will be glad to answer such questions as the committee may have, to the best of our ability.

I am glad to have this opportunity to appear before you again on the subject of dairy legislation.

As you will recall, I appeared before this subcommittee earlier this year at which time I presented a statement for the Department covering the dairy situation and outlining the Department's recommendations with respect to dairy legislation.

Since my earlier statement, there has been little change in the dairy situation. At present, the situation appears no worse than it did at that time. On the other hand, the situation has not improved markedly. Milk production continues to be down slightly from the level of a year ago due largely to poor pasture conditions throughout most of the important milk production areas of the country. To date, however, production has declined less than 1 percent from the level of a year ago and CCC purchases of surplus dairy products are still expected to be above \$450 million. The incomes of dairy farmers remain low and in need of improvement.

I would summarize the dairy situation by saying there continues to be a need for new dairy legislation—both to improve the income of dairy farmers and to reduce the cost of the present dairy price support program under which we continue to carry excessive inventories of surplus dairy products.

In my earlier statement before this committee, I outlined an approach to dairy legislation which we in the Department believe would help to accomplish the needed improvements in the dairy situation. We also furnished for the record draft legislation which would authorize such an approach. The program I outlined was a combination of two different proposals which were before your commit-

tee at that time in different bills. The first proposal authorized shifting from the present "blend" pricing system in Federal milk marketing orders to a base-excess pricing plan—that is, a plan whereby each producer would receive a base or pro rata share of the sales of milk in the market for the higher valued fluid uses with the remainder of his marketings, or excess, being priced at the lower rate applicable to milk going into manufacturing uses. The purpose was to enable a producer to reduce his total marketings without losing any part of his share of the fluid market. The second proposal provided for payments to producers who voluntarily reduce their output of milk. We still believe that such a program would help to achieve the objectives of:

- (1) Increased income for manufacturing milk producers.
- (2) Increased income for fluid milk producers.
- (3) Reduction in the costs of the dairy program to the Government, and
- (4) Reduction in excessive inventories of dairy products.

The three bills now before your committee, H.R. 7261 by Congressman Johnson, H.R. 7120 by Congressman Olson, and H.R. 8357 by Congressman Stratton, are all similar to what we outlined at that time. The first section of each of these bills would authorize base-excess pricing provisions in Federal milk marketing orders. The bills differ, however, in the procedures under which these provisions would be developed. H.R. 7261 contains the language which the Department originally proposed under which the Secretary would be required to hold hearings on base-excess plans in Federal order markets where marketings were in excess of necessary reserve requirements. The other two bills do not contain this requirement. It is our understanding that many people in the dairy industry would object to this requirement. For this reason, the base-excess plan provisions of H.R. 8357 are acceptable to the Department. The payments provisions of H.R. 7261 and H.R. 7120 differ from the Department's earlier proposal in that they provide for income payments of up to 50 cents per hundredweight on the amount of milk marketed by producers outside of Federal orders who agree to restrict marketings. The Department had proposed making payments to producers on the amount by which they reduced their marketings. The payment provisions of all three bills are essentially identical and similar to the Department's recommendation as they would apply to producers under Federal milk marketing orders. All provide that payments of up to \$2.50 per hundredweight might be made to producers under Federal milk marketing orders who agree to reduce their marketings on the amount by which they reduce. However, H.R. 8357 provides for payments only to producers in the Federal order markets.

With respect to H.R. 8357, we would have no objection insofar as it goes, but we believe payments and the benefits of new dairy legislation should be extended to all producers and not just restricted to those under Federal milk marketing orders.

These bills would not reduce Government expenditures for dairy price support as much as the program proposed earlier by the Department. Nevertheless, we believe the approach embodied in these bills would significantly reduce Government costs and the surplus accumulation under the present program and significantly increase the income of dairy farmers.

We would prefer to see some changes in language if any of these bills is to receive a favorable recommendation from the committee. The base-excess provisions of H.R. 8357 have been reviewed by the Department with some representatives of the dairy industry and appear to provide the most acceptable approach. However, it has since been suggested that an additional provision be included to make sure that the base-excess plans would not create barriers to the entry of milk into the order markets, and we believe that would be desirable.

If the payments approach of H.R. 7120 and H.R. 7261 is to be used, we believe it would be desirable to amend the language now in these two bills to limit the payments to dairy farmers outside of marketing order to milk for manufacturing uses and to provide authority for different levels of payments to them according to the amount of adjustment they make. Also, a few minor clarifying amendments may be necessary. We would be happy to assist the committee staff in this respect.

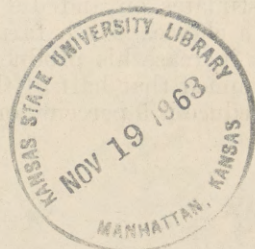
Recently, the Department, by request, prepared some estimates of the results which might be achieved (1) under legislation similar to the first section of H.R. 8357 providing for the base-excess plans alone, and (2) under legislation which included provisions for both such base-excess plans and payment provisions similar to those in H.R. 7120 and H.R. 7261, assuming payment rates of 20 cents a hundredweight to producers not under Federal orders whose marketings do not exceed those during the base period and 40 cents a hundredweight to such producers whose marketings are 5 percent below that level. These estimates are shown on the attached table.

I will not read all of the figures in the table attached, Mr. Chairman, but I might point out that on the second page there are some figures that seem to be significant, that is to us, and they are that the total net program expenditures under the existing law we estimate at \$453 million; with a base-excess plan only in effect we would estimate that it would be, at least, \$427 million; and with the base-excess plan plus payments in effect it would be reduced further to \$416 million.

The other figure that I would mention would be the last line, the "Effect on net producer income," and we would estimate that the base-excess plan would only increase this by \$7 million; the base-excess plan plus payments would increase it by \$150 million a year.

We recognize, of course, as everyone must, that these estimates cannot be precise. All we can say is that they are the best estimates that could be made by our technical people.

That concludes my statement, sir.



(The table referred to follows:)

Estimated program results of base-excess plan only, and base-excess plan plus payments, compared with present program

Item	Unit	Present program		Base-excess plan only	Base-excess plan plus payments ¹
		1962-63 marketing year	1963-64 marketing year		
	(1)	(2)	(3)	(4)	(5)
Support level, by purchases.....	Hundredweight.....	3.11	3.14	3.14	3.14
Milk production.....	Billion pounds.....	125.5	125.5	124.9	120.9
Marketings (milk equivalent):					
Fluid milk and cream.....	do.....	54.0	54.4	54.4	54.4
Manufacturing milk and cream.....	do.....	64.0	64.0	63.4	59.4
Total.....	do.....	118.0	118.4	117.8	113.0
Commercial demand (milk equivalent):					
Fluid milk and cream.....	do.....	54.0	54.4	54.4	54.4
Manufacturing milk and cream.....	do.....	55.1	55.2	55.2	55.2
Total.....	do.....	109.1	109.6	109.6	109.6
Surplus ²	do.....	8.9	8.8	8.2	4.2
CCC purchases:					
Butter.....	Million pounds.....	355	350	320	113
Cheese.....	do.....	140	140	145	180
Nonfat dry milk.....	do.....	1,270	1,200	1,150	848
CCC purchase price:					
Butter.....	Cents per pound.....	58.0	58.0	58.0	58.0
Cheese.....	do.....	34.6	35.6	35.6	35.6
Nonfat dry milk.....	do.....	14.4	14.4	14.4	14.4
CCC net expenditures, purchases (gross).....	Million dollars.....	511	484	458	296
Reduction payments: ³					
Quantity (milk equivalent).....	Billion pounds.....				2
Rate per hundredweight.....	Dollars.....				2
Total.....	Million dollars.....				40
Marketings payments: ⁴					
Quantity (milk equivalent).....	Billion pounds.....				37.3
Rate per hundredweight.....	Dollars.....				0.20-0.40
Total.....	Million dollars.....				111
Total outlay.....	do.....	511	484	458	447
Sales proceeds.....	do.....	31	31	31	31
Total net program expenditures.....	do.....	480	453	427	416
Dairy farm cash receipts:					
From marketings.....	do.....	4,836	4,871	4,865	4,775
Payments.....	do.....				151
Total receipts.....	do.....	4,836	4,871	4,865	4,926
Effect on net producer income.....	do.....		0	+7	+150

¹ Payments to producers in Federal order markets on their reductions in marketings below their base period marketings, and payments on manufacturing milk marketed outside of Federal orders. This estimate assumes that the producers of half of the manufacturing grade milk would reduce 5 percent for 40-cent payments and that the producers of the other half would limit their marketings to their base-period marketings for 20-cent payments. A larger percentage of farmers reducing would not significantly affect program cost but would increase net farm income.

² Milk equivalent milkfat basis.

³ Payment on reduction below base in Federal order markets.

⁴ Payment on manufacturing grade milk marketings.

Mr. JOHNSON of Wisconsin. You say that under the plan the farmers income would go up \$150 million?

Mr. MURPHY. The particular proposal that we are asked to make these estimates on and did make the estimates on would give the farmer a choice. Each farmer could choose to stay within his base and not increase his production above the base period, or reduce it. It is assumed that half of the manufacturing grade milk producers would reduce it 5 percent for a 40-cent payment, that is per hundred-

weight and the producers of the other half would limit their marketings to their base marketings for 20-cent payments. So it is a combination of the 20-cent and 40-cent proposal.

Mr. JOHNSON of Wisconsin. That would be 20 cents when the producers of the other one-half would limit their marketings to their base-period marketings who would receive the 20-cent payments, and those who would reduce their production, 50 percent of the marketing grade milk, 5 percent would receive 40-cent payments.

I think that under the second example it would show that the farmer would have about \$110 million more income than the Government is spending now under the program.

Mr. MURPHY. Mr. Chairman, if I remember the work on that—Mr. Emery is here and I expect will remember this better than I—but you asked the Department to make these estimates based on what you stated were the amount of participation, assuming that there would be a certain amount of participation if the payment was 20 cents for 5-percent reduction and payments of 40 cents were made for 10-percent reduction, and I think that it would be doubtful if you would get that much participation with those payment rates. This particular set of estimates attached to my statement also includes estimates made by our technical people as to the amount of participation that you would get with these payment rates.

Mr. JOHNSON of Wisconsin. I think that your figures show that you would get about 50-percent participation under the dairy program.

Mr. MURPHY. The estimate is stated in footnote No. 1, the bottom of page 6:

Payments to producers in Federal order markets and their reductions in marketings below their base period marketings, and payments on manufacturing milk marketed outside of Federal orders. This estimate assumes that the producers of half of the manufacturing grade milk would reduce 5 percent for 40-cent payments and that the producers of the other half would limit their marketings to their base period marketings for 20-cent payments. A larger percentage of farmers reducing would not significantly affect program costs but would increase net farm income.

So that it is the estimate that our people made for the participation, that you would get with this 20- and 40-cent payment combination which would apply to manufacturing milk outside of marketing orders, and that one-half of the producers with manufacturing grade milk would reduce 5 percent and get the 40-cent payment and the other one-half would not reduce but would limit their marketings to the base period level and get the 20-cent payment.

Mr. JOHNSON of Wisconsin. Any questions?

Mr. MCINTIRE. Yes, Mr. Chairman. In your statement there are some things that I would like to ask some questions about to get your opinion. At the bottom of page 2 you make reference to the fact that—

H.R. 7261 contains the language which the Department originally proposed and which the Secretary would be required to hold hearings on base-excess plans in Federal order markets where marketings were in excess of necessary reserve requirements.

And then you go on to say that there are many people in the dairy industry who objected to this provision and that you are now recommending that such a provision not be a part of the legislation. Am I correct in this?

Mr. MURPHY. That is correct. After the last hearings before this committee we had some discussions with representatives of the industry in the Department and worked out what is generally referred to as a compromise version of the base-excess marketing plan. While we do not think it is altogether as effective as the version we had suggested originally, we do think that it would be workable and to the Department it is acceptable and as a practical matter if we were to have this enacted into legislation, it seems to us that the only real chance of getting it done is this particular so-called compromise version.

We do suggest, as I indicate in my statement, one amendment which is of rather a technical nature.

Mr. McINTIRE. I will get to that. I wanted to discuss this provision a little further. We are speaking here now, are we, of certain sections of the bill which deal with this class I base in the marketing order hearings?

Mr. MURPHY. That is right.

Mr. McINTIRE. Well, now, it is not rather fundamental in marketing agreement structures that any amendments to an order are the subject of public hearings within the marketing order territory?

Mr. MURPHY. It is.

Mr. McINTIRE. Why are you stating that this should not be done?

Mr. MURPHY. Well, the hearings would still be held. The provision that we have agreed to drop is one which would require the Secretary to hold hearings in any order area where the supplies were excessive.

Mr. JOHNSON of Wisconsin. I think that the legislation you are talking about provides for hearings in case the farmers of the area turn down the regulations.

Mr. MURPHY. There are two sets of hearings involved.

Mr. JOHNSON of Wisconsin. Yes.

Mr. MURPHY. In any case, under any proposal there would be a set of hearings held before the base-excess plan was submitted to the producers for vote in a referendum.

Under the so-called compromise proposal which, as I remember it is now reflected in the first section of H.R. 8357, the decision as to whether or not such hearings would be held at all would be made under the provisions of the act that now determine whether or not hearings would be held. Under the proposal that we made, which is reflected in one of these other bills, there would be a mandatory requirement that such hearings should be held in any order area where the supply of milk was excessive.

Neither version contemplates that the hearings will be skipped or omitted, but the question was whether or not you should go into the procedures, start the machinery looking toward base-excess marketing plans at all, and the other provision for hearings that we talked about last time, and about which some controversy developed, were hearings that might be held after the vote was taken on the base-excess plan, if the plan is voted down. We suggested that in that case the Secretary should have further hearings in the market order area to determine what changes, if any, should be made in the class I price.

That provision, also, has been omitted from this version of the plan or proposal.

Mr. McINTIRE. But you would follow the established procedures that there would be no amendment without hearings, because it is my

understanding that the bills also provide that the order could be opened up and amended with this specific proposal and not jeopardize the effectiveness of the order as it now stands?

Mr. MURPHY. That is true.

Mr. McINTIRE. You would not propose to amend without public hearings if other aspects of the regulations were defeated or the amendments were defeated?

Mr. MURPHY. We would not.

Mr. McINTIRE. Now, coming over to the other point on page 4 of your statement, you make reference to this fact in the first paragraph:

However, it has since been suggested that an additional provision be included to make sure that the base-excess plans would not create barriers to the entry of milk into the order markets, and we believe that would be desirable.

And you say "would be desirable."

Would you elaborate on that statement?

Mr. MURPHY. Yes, sir; I will be glad to. It has been the Department's position from the beginning, and still is the Department's position, that these base-excess plans should not be used and should not include provisions which would erect barriers against the entry of milk into order markets.

In drafting the proposal that is reflected in H.R. 8357, a provision was included which would protect the rights of dairy farmers who are outside the marketing order, who were not producers under the marketing order during the base period, to the effect that under the order when and if they began to make deliveries to handlers regulated by the order. It has been pointed out to us that this provision, perhaps, does not adequately protect what might be called the "grandfather rights" in such a case; that is, the successor in interest of a dairy farmer who was not a producer under the order during the base period might not be protected if he acquired the farm from the outside dairy farmer before he becomes a producer under the order—for example, where the outside dairy farmer sells his farm or if he dies and it goes to his son. This provision in the bill does not give these successors a clear cut right under the order. We think this possible loophole might well be closed up.

Mr. McINTIRE. Do you have the language that you would suggest as an amendment to hand to the committee to cover that?

Mr. MURPHY. We do have some language, yes, sir; and I believe it would be adequate for this purpose, and we would be glad to submit it.

(Information follows:)

AMENDMENT TO H.R. 8357

On page 3, line 5, strike the period following the word "effective" and insert the following:

"*Provided*, That if any dairy farm of such a dairy farmer has been transferred to another person and no allocation based on deliveries from such farm has been issued when milk is first delivered therefrom as producer milk under the order, such transferee then operating the farm shall be provided any allocation for which the said dairy farmer would otherwise have been eligible based on deliveries from such farm."

Mr. McINTIRE. Is it your thought that in the establishing of the class I base in the market order territory that a reserve be set up to provide for this situation which you have described? Under the

Lehigh Valley case, of course, the Supreme Court ruled against the so-called compensatory payment arrangement. And in the New York and New England orders it was held to direct attention to some changes that should be made. How do you suggest in the class I base plan that it would be opened for such provision?

Mr. MURPHY. It would be open on the same terms and conditions, and subject to the same provisions of law, as at the present time. As I understand it, if a producer can arrange to have his milk marketed through a handler who is subject to regulation under the order then his milk is regarded as part of the milk marketed under the order and he is compensated through the pool. These plans as we conceive them would have no effect on that. It would make no difference, so far as the marketing of the milk is concerned.

The question gets to be one as to the price of the milk that is marketed. How much of this is going to be paid for at the class I price. So the precise question is not as to whether or not it is marketed under the order, but it is the compensation that is paid to the producer.

Mr. McINTIRE. Under the base plan, presumably, the total class I needs are covered in the base which is known to the producers eligible to marketing in that area.

Mr. MURPHY. The share of the class I markets that any producer might have during any given period would be determined by the share that other producers have. This would not rigidly freeze the share that any producer would have indefinitely. He would not get 1 percent of the market and hold on to that 1 percent of the class I market, no matter what happened after that. The concept embodied here is that any producer—any dairy farmer who is not a producer, during the base period, under the marketing order, yet becomes a producer under the order, will get as large a share of the class I market as if he had been a producer under the order during the base period. This is to say, if he comes in and gets his milk marketed under the order, he will get a part of the class I market under that order, and if he gets a part of it, this means, necessarily, that this part is lost by the other producers. This will not result in old producers, that is, producers who are producers under the order during the base period—it will not cause them any greater loss of their shares of the class I market than under the existing system. They would hold the same share of the class I market as they would have under the existing system, but they would be able to do it without producing as much excess or surplus milk.

Mr. McINTIRE. Thank you. That is all.

Mr. JOHNSON of Wisconsin. Mr. Olson.

Mr. OLSON. No questions.

Mr. JOHNSON of Wisconsin. Mr. Quie.

Mr. QUIE. Following up a little bit on Mr. McIntire's questions about the history arrangement. And whether a dairyman would lose his history if he did not produce up to that amount in later years. Suppose that the program continued on and his share of the marketing order was reduced, but he should reduce the production even more than was contracted for by the producer—even on the class I base—would he lose this history or would it go to someone else—what would result?

Mr. MURPHY. My recollection is, and I am going to ask my colleagues to check me on this—it is fairly clear that he would not lose

any of his history, so long as he produced up to his class I base. I have not actually thought about the case where he went below, but it is my impression that he would not lose it in that case. That is right, I am told. They indicate that this is right.

Once the market history having been established during the base period, it would be preserved and would not be lost by marketing less than during the base period.

Mr. QUIE. If he dropped out of the dairy business entirely for a year or two he could preserve his history until the time that he came back into the market; is that correct?

Mr. MURPHY. I think that would be the case. I must confess that I have not examined that particular question, but I believe that is the way it would work.

Mr. QUIE. And the only loss that he would receive would be the loss in the base like everyone else would have in the event that new producers came into the market?

Mr. MURPHY. That is right.

Mr. QUIE. Would you anticipate any penalty at all to the new producers while they were adjusting themselves, those who came into the market?

Mr. MURPHY. I believe that under the existing law there is a provision that marketing orders may provide that during the first 2 or 3 months a new producer gets a lower price than the old producers. That same provision would still be available.

Mr. QUIE. Would the same possibility exist for a producer to earn an increase in base for himself if he was in the market before—would he be able to earn an increase in the base in the way that a new producer could earn his base?

Mr. MURPHY. I believe that the producer who was marketing under the order during all of the base period would not earn an increase in base.

Mr. QUIE. In other words, you would establish the base on some historical period—it would be pretty much that—and it would be frozen into the production?

Mr. MURPHY. With some exceptions. There are exceptions for new producers of the kind who were not dairy farmers, not marketing, either under the order or anywhere else during the base period. That is one exception.

One other exception is a producer who is marketing under the order during a part of the base period, but not all of the base period. And the third exception, which I think, perhaps, is the most important one, is a possibility of acquiring base through transfer.

Mr. QUIE. In other words, if a farmer has hogs and dairy cows and he wanted to change his operation and drop out of hog production and go into all dairying, he would be precluded from earning a base—he would have to go out and purchase it?

Mr. MURPHY. To get the larger class I base, I think he would.

Mr. QUIE. Have you any information on what the bases would sell for? I imagine that you could secure the information from the order areas that presently have these plans which are quite similar to this.

Mr. MURPHY. I do not have any information on this. There are some States I understand that have base plans similar to this, some seven or eight States.

What provisions they make for the transfer of bases, and whether they are sold, and the price that prevails, I simply do not know.

Mr. QUIE. What would happen to the seasonal base-surplus arrangement that some Federal orders now have—would this go into the program where a person would get no benefit if he produced more in July and August and September months.

Mr. MURPHY. I do not know. I had better ask about that.

Mr. MARCH. Those adjustments still would be possible.

Mr. JOHNSON. Will you come up to the table, please?

Mr. MARCH. Adjustments of that type to take care of seasonality production would still be possible within the framework of the base plans.

Mr. QUIE. How would it operate?

Mr. MARCH. It would operate in much the same way as at present.

Mr. QUIE. The person who had the right to produce under class I base plans, let us say, 100,000 pounds of milk a year. What kind of penalty would you make if he produced most of the 100,000 pounds in 9 months out of the year and he produced very little of it in the 3 months of the year that seasonal bases made?

Mr. MARCH. I think there is flexibility enough in the provisions to provide in one manner or another for adjustments which would have the same basic effect as the seasonal base plans presently have. I have not thought through myself, just how it could be incorporated into the present system, but I feel that we have enough flexibility within the operation of the orders to superimpose that type of provision upon the other type of base plan.

Mr. QUIE. It would be possible that a person would not receive the full class I price for his base class I milk in the event that he should not produce a sufficient amount in the shorter period of, say, July, August, and September when he was making his seasonal base?

Mr. MARCH. An adjustment which would have that effect could be worked in, I would think.

Mr. MURPHY. I would think that his class I base would be a share of whatever milk was marketed under the order for class I usage during a marketing and settlement period, and that he would get his share of the class I marketings during that time period. His class I base, it seems to me, would not be expressed in terms of so many gallons or so many hundredweight, but in terms of a share of the market.

Mr. QUIE. Well, then, if he did not produce up to his class I base in a particular period of the year he could not produce in excess of that amount in the remainder of the year and be paid the class I base—in any case, he has to produce up to his class I base each month of the year to receive the money for the class I that he would be entitled to?

Mr. MURPHY. I would think so.

Mr. QUIE. How about the establishment of a base for payments to manufacturing milk producers—in this case it would be all done on a history basis, is that not true—anyone who did not produce the milk could not earn a base?

Mr. MURPHY. That is true.

Mr. QUIE. And there would be no way of earning a higher base during this period of time?

Mr. MURPHY. For the purpose of these payments, that is true.

Mr. QUIE. Would you, also, anticipate the possibility of the purchase and sale of bases under these bills?

Mr. MURPHY. As I recall there is no provision for purchase and sale of these bases.

Mr. QUIE. To go to another subject, do you have any figures on the whole milk equivalent of the imports that come into this country each year?

Mr. MURPHY. I do not have the figures with me. I have in mind a general figure, that is about six-tenths of 1 percent of our total production. I do not have the precise figure in mind, nor do I have the figures with me, but it is in this range.

Mr. QUIE. Could you supply for the record then the figures for the last 4 years?

Mr. MURPHY. We will be glad to do so.

(The requested information is as follows:)

U.S. imports of dairy products by products and whole milk equivalent 1959-62
[In thousands of pounds]

Commodity	1959	1960	1961	1962 ¹
Cheese:				
Quota cheese:				
Cheddar ²	2,154	3,212	1,677	2,544
Italian types:				
Romano.....	1,679	1,519	1,989	2,607
Reggiano.....	1,638	1,035	1,258	1,271
Parmesano.....	411	395	489	646
Provoloni and Provolette.....	4,062	4,025	4,031	4,558
Sbrinz.....	27	10	3	
Edam and Gouda.....	5,159	5,994	7,315	6,687
Blue-mold ²	4,184	4,186	3,827	4,363
Total.....	19,314	20,376	20,589	22,676
Whole milk equivalent.....	161,488	171,433	169,591	188,711
Nonquota cheese:				
Swiss (Emmenthaler).....	11,495	9,935	11,203	12,518
Gruyere.....	4,423	4,751	4,627	4,805
Pecorino.....	13,992	13,928	14,877	17,961
Roquefort.....	2,275	2,094	2,271	2,392
Bryndza.....	53	65	32	83
Colby.....	3,092	3,820	15,633	11,279
Other (not elsewhere specified) ²	9,213	8,178	6,577	5,899
Total.....	44,543	42,771	55,220	54,937
Whole milk equivalent.....	378,653	364,926	485,122	476,867
Other milk products:				
Quota products:				
Milk, whole dried.....	22	6	3	8
Milk, nonfat dry.....	2,054	1,340	2,159	1,360
Buttermilk, dried.....	734	357	484	404
Malted milk and compounds.....	7	5	21	6
Dried cream.....	6	6	3	1
Butter.....	744	1,044	861	789
Butteroil.....	1,200	1,200	1,200	1,200
Whole milk equivalent.....	48,398	54,723	50,780	49,209
Nonquota products:				
Fluid cream (less than 44 percent butterfat).....	22	9	19	1,247
Junex (less than 44 percent butterfat).....			2,511	4,085
Milk, evaporated (unsweetened).....	3	2	1	4
Milk, condensed (sweetened).....	7	6	1,162	69
Milk, condensed (not elsewhere specified).....	3	8	1	2
Casein, dried.....	94,459	92,155	101,827	95,576
Lactose, dried.....	729	553	611	392
Whole milk equivalent.....	275	137	31,515	60,719
Total whole milk equivalent.....	588,814	591,219	737,008	775,506

¹ Preliminary.

² Small amounts of processed Cheddar and Blue-mold quota cheese included in "Other."

Mr. QUIE. And not only the figures of the amount of these commodities that come in, but the whole milk equivalent.

Mr. MURPHY. Yes; we will be glad to do so.

Mr. QUIE. How do you prevent slippage in the program as regards payments—how do you anticipate that it would be administered?

Mr. MURPHY. I think that I would undertake to get agreement as a condition of receiving the payments that the farms would not be used for the production of milk by other dairy farmers who were not participating in the program.

Mr. QUIE. Did you say that the farms would not be used?

Mr. MURPHY. That is right. First, I think that under this type of payment program that you would have in manufacturing areas, we would expect there would not be a great deal of slippage, because most farmers would participate, and the slippage that occurred would be only in the case of dairy farmers who were not participating. We think that this would take care of the bulk of the problem. The question has been raised a number of times. We have made no final judgment in the Department as to what we would do if it is left up to us to administer such a program by putting restrictions on transfers or on the use of cows or equipment or farms—on transferring them from one farmer who does participate to a farmer who does not participate.

My personal inclination would be to try to establish restrictions with respect to farms, but not with respect to cattle.

I would not feel that it would be necessary to include any prohibition for farmers who do participate against the sale of their cows for any purpose. The question would be the rate of increase in production by nonparticipating farmers. The question would be whether or not it would be accelerated, and accelerated by reason of the availability of a larger than normal number of dairy cows in the market which, because the number is larger than normal, might be available at a lower price than normal.

I would not regard this as a factor of sufficient importance to justify the administrative headaches we would get into in trying to administer a program that would prevent the transfer of cows or require their slaughter or anything of that kind.

Mr. QUIE. The last few years there has been quite a transition in dairying from small dairy operations to large dairy operations. There has been quite a large reduction in the herds of fewer than 20 cows and quite an increase in the number of dairy farms with more than 30 cows. I do not know whether you expect that this will continue. A person who has already invested money in increasing his herd would undoubtedly continue to do so, would he not, that is, continue to increase the size of his herd, because he could not very well revert back to the figure of previous years.

Let us take a farmer with 15 cows and he increases his herd. He has invested money and has made arrangements on his farm to increase to 45 cows. Do you think that with that big investment he could stay within his historical production and if not, he would automatically purchase cows from other farmers who would be paid not to produce milk?

Mr. MURPHY. The farmer who had increased his production very sharply, very greatly since the base period might well find it not feasible, he might find it uneconomical to participate in the program.

I believe that we would expect this to be the exception, rather than the rule. We would expect that under the kind of payment program provided in H.R. 7261 and H.R. 7120 that most producers of manufacturing grade milk would participate either by holding their marketings to the level during the base period or even reducing them below the level during the base period.

We have indicated earlier, and I would indicate again, that we would regard this in all likelihood a transitional program, one that would not be continued indefinitely. I would expect that dairy farmers under these circumstances would regard that as not something to determine their eventual long-range plan.

MR. QUIE. Could you provide for the record information on the numbers of farmers that have increased their number of cows by more than five in the last 3 years?

Do you have the figures broken down who have increased their number of cows during this period, who have increased from 50 cows and above and the like—could you break it down as to the number who have increased their herds more than 5 cows?

MR. MURPHY. I do not know whether we have that kind of information in the Department or not, but we will be glad to do it, if we can; if not, we will come as close as we can on the basis of the data we have.

(The information follows:)

Data on the number of farmers who have increased their herds by more than five cows during the last 3 years are not available. The census data throw little light on this question because there has been a marked downtrend in number of farms keeping dairy cows. The total number of farms reporting sales of milk or cream decreased from 1,474,699 in 1954 to 1,017,329 in 1959 which is the year of the latest census. The numbers of farms with all sizes of herds under 30 cows decreased while the number of farms with 30 cows or more increased. The numbers of farms selling milk or cream by sizes of herds in the 2 census years are as follows:

	1954	1959
Less than 30 cows.....	1,380,003	893,523
More than 30 cows:		
30 to 49.....	70,948	89,315
50 to 74.....	15,034	22,336
75 to 99.....	3,992	5,604
100 or more.....	4,722	6,551
Total.....	94,696	123,806
Grand total.....	1,474,699	1,017,329

MR. QUIE. Would you not agree that the farmer who had already made his investments in buildings and equipment for an increase in his herd of greater than five cows would continue to do this, in order to pay off this huge investment?

MR. MURPHY. I would think that it might depend on the number he had before he made the increase of five cows. The man who had 5 cows and added another 5 cows would be in a very different situation, it seems to me, than the man who had 50 cows and added another 5 cows.

MR. QUIE. I will grant you that.

MR. JOHNSON of Wisconsin. You are assuming that 50 percent of the milk will come under these programs, is that not correct?

Mr. MURPHY. Our assumption is that we could get participation equivalent to virtually all farmers producing manufacturing grade milk only.

Mr. QUIE. You think that 50 percent of the farmers would reduce production and get the 40-cent payment. The other 50 percent would stay within their base and receive the 20-cent payment.

Mr. MURPHY. That is right.

Mr. QUIE. Some people have said that the program proposed here is somewhat like the feed grain program where the farmer is paid voluntarily for reducing his program below the base. The feed grain program, as administered this year, is different from 1961 and 1962. Taking everything into consideration however, we find that the production of corn has increased 8 percent over the previous year, according to your latest estimate, and this is an 11-percent increase over the normal production of 1957-61. That is true also with other feed grains, comparing this year's production with last year's production.

With that kind of a result in a program where you can control the acres, how can you anticipate that you will have very much better results with the dairy program where you cannot keep track of the animals from one farm to another?

Mr. MURPHY. I think that some of the concepts of this program are the same as the ones involved in the feed grain program. And by this I mean the principle of voluntary reductions and paying something for the reductions which we estimate is less than the cost would be to the Government if the reduction did not occur. There are some very significant differences between this and the kind of factual situation that you deal with in the feed grain program.

First let me say that we regard the feed grain program as a very successful one. But there you do deal with acres as distinguished from bushels.

There has been a very substantial increase in the average yield per acre. It goes up almost every year.

Under this dairy program you would be dealing with the quantity of the product that is marketed, that is, milk. If you were dealing with the numbers of cows instead of the hundredweight of milk, it might be more comparable to the situation that you have under the feed grain program where you are dealing with acres, rather than with bushels. You would not have, under this program, the kind of slippage that occurs by reason of increased yield per acre in the feed grain program.

Mr. QUIE. Except if the cow walks over to the neighbor's farm.

Mr. MURPHY. I think that is still not the kind that occurs by reason of the increase in the yield per acre. I believe it would be more comparable to the increases that you might have in acreage by nonparticipating farmers under the feed grain program.

That is to say, you would not have this element that you might regard as slippage by the farmers who participate under the program, as you might have in feed grains. I think, too, it is relevant to note that the trend of production in relation to consumption is not quite the same in dairy products that it was in feed grains. I believe that the balance between production and consumption in dairy products is considerably closer. The margin of excess that you need to deal with is not so great.

Mr. QUIE. Suppose the person did agree to reduce below his base by 5 percent but he produced 100 pounds more than he agreed to produce? Would he lose his 40-cent payment for that quarter and receive only the 20-cent payment, so long as he remained below his base?

Mr. MURPHY. I am not sure that I understand your question.

Mr. QUIE. A person had agreed to reduce his production 5 percent but he found out that he had not reduced 5 percent. Actually he had gone over that figure by 100 pounds. Would he then receive a 20-cent payment rather than the 40-cent payment?

Mr. MURPHY. Well, first I think that the test is what he markets, not what he produces. He would not get in trouble just by producing this much milk. I would suppose in this program, as in others, there would be some provision not to penalize people excessively for a minor thing of that kind which was not done deliberately. I would hope provisions would be made that if a man marketed only 100 pounds in excess of what he agreed to market and it appeared that it was a mistake made in good faith, that he would not be penalized even to the extent of reducing his payment from 40 cents to 20 cents.

Mr. QUIE. How much excess would you anticipate you would allow before he would be penalized?

Mr. MURPHY. I would rather have more time to deliberate on that.

Mr. QUIE. What if he was only entitled to the 20-cent payment, would you expect him to keep track of his production, and if he was producing more at the end of his marketing period, at that time that he would then not send his milk to market for a couple of days in order to stay within his base?

Mr. MURPHY. We would expect him to keep track of his marketings. He can hold down his marketings in various ways, including the use of milk on the farm.

Mr. QUIE. We would find that the dairy farmer was trying to produce up to his base—it would be quite an incentive for him to do so, to receive that payment. But there is a chance that he could be caught long at the end of each quarter. And a farmer in the last day or two, in order to prevent his marketings from being greater than what had been contracted for, would try to reduce it.

Mr. MURPHY. Here we are talking, I think, about milk used for manufacturing purposes.

It is not like the fluid milk marketing where you need a constant supply, day by day, it seems to me. There could be some variation in deliveries of milk for manufacturing purposes. It does not seem to me, offhand, that this would present any great difficulty.

Mr. QUIE. On the whole you expect he could control his marketing operation, because he sends his milk in each day and keeps a record of it.

Mr. MURPHY. I would think that it would not likely be anything like 50 percent of the farmers who would withhold their milk. I am not, at firsthand, familiar with the manufacturing milk process, but it seems to me that the process of the manufacturing milk plants would have enough elasticity to handle considerable variations in the rate of deliveries without any particular hardship. I will gladly confess that I do not have firsthand knowledge of this, and would certainly yield to your information on that subject.

Mr. QUIE. If the penalty would be severe enough, you would expect, would you not, that if the farmer found that his last 2 days'

production would put him over his base or his contract, that it would be of substantial benefit to him to dump that milk down the drain rather than to bring it on the market and suffer the penalty?

Mr. MURPHY. I would.

Mr. QUIE. Thank you. That is all.

Mr. JOHNSON of Wisconsin. Mr. Olson.

Mr. OLSON. I believe that we have a unique situation in the dairy industry in that legislation dealing with the areas under Federal milk marketing orders and areas producing manufacturing milk will complement each other, and we have some pretty good controls; that is, built-in controls, where we have had an increase.

If we adopted a class A base plan, it would then become uneconomical for this slippage to occur; would this not be correct?

Mr. MURPHY. In the marketing order areas, that would generally be true.

Mr. OLSON. And it would seem to me also that it cannot be said that the base is frozen any more than the class I price is frozen, that results now in the blend price. If there is an increase in the consumption of fluid milk, then your base goes up—would this not be right?

Mr. MURPHY. That is true.

Mr. OLSON. If the consumption does not go up, actually your class I base is frozen, is it not?

Mr. MURPHY. That is true. At the present time the producer under a marketing order can get a larger share of the class I market by increasing his production more than the average producer under the order. That is the thing that we would be getting at under this base excess plan.

Again, I think that we might note that the base would be in terms of a share of the market, instead of the number of gallons or the number of hundredweight of milk.

Mr. OLSON. Right. Well now, the testimony last spring was that it was not economical for these producers in the Federal milk marketing areas to produce surplus milk—milk for manufacturing purposes. This was, I believe, the consensus.

Mr. MURPHY. That is the general burden of the testimony. There are exceptions and footnotes here and there, but generally that is the case.

Mr. OLSON. If we got the base plan adopted, this ought to eliminate the slippage in these areas, should it not, if it is uneconomical to produce for manufacturing purposes?

Mr. MURPHY. I do not think it would eliminate it completely. You say that "if it is uneconomical to produce manufacturing milk." I suppose that if you start with that assumption in absolute terms, it follows that there would be no slippage, but as I say, there are some exceptions and reservations as to the proposition that it is uneconomical to produce the manufacturing milk. A man has a certain number of cows, a certain number of barns, a certain amount of feed. Variable costs for some producers in market order areas are less than the cost of producing the manufacturing milk, and they probably will produce it. The thing that seems to me almost incontrovertible—although a good many people seem to controvert it—is that you would have less incentive and less production of surplus milk at the manufacturing price level than you would at the blend price level.

You would have less of this marginal share of the production in these marketing order areas.

Mr. OLSON. In regard to the producer who marketed his production in 9 months, if he does so at the present time, he received a blend price. If you assumed that a class I base plan would be advantageous now, it would certainly be advantageous if he continued marketing his production 9 months, would it not?

Mr. MURPHY. Yes, sir; I would think so.

Mr. OLSON. I do not know if it is really relevant to bring in the feed grain picture; as you pointed out, we rely on acreage control rather than bushels. I know that back home in my district, that weather does make a difference in the production of feed grains. I believe that additional work is necessary to improve the feed grain program, but unless we assume that the cows will be sent from a Federal milk marketing area to a manufacturing milk area, the problem of slippage should not be great. This could happen under the present situation; we could have the transfer of the surplus production from New York State to Minnesota and Wisconsin, but it would still not be greater. In total it would be the same.

Your best estimate is that this plan will reduce the cost to the Government?

Mr. MURPHY. That is true; that is true. These are our best estimates.

I would just like to repeat, but I will not dwell on it, that we regard the feed grain program as highly successful. I do not mean by anything I have left unsaid here to leave any inference that we feel that it is not highly successful or that we are apologetic about it.

Mr. OLSON. I think it is.

Mr. JOHNSON of Wisconsin. I think it is a fact that most every farmer who has overproduction in his dairy herd will reduce his production if he gets a certain price. He will be glad to make the 5-per-cent reduction, at least.

Mr. MURPHY. I think that is true. I think this would accelerate the normal culling process, too.

Mr. OLSON. One other thing that you were asked to supply for the record was the number of farmers who had increased their herd size by, say, five cows. Now, if we were to completely rely on such statistics, then I suppose that you should provide us with figures as they pertain to the marketing order areas and the manufacturing milk areas, because we have at present, according to the testimony, the built-in pressure to overproduce to maintain your share of the class I market. Is this not correct?

Mr. MURPHY. That is correct, in my judgment. The present blend price is a very great built-in pressure, to increase production. That is in order market areas.

Mr. OLSON. And we cannot assume that this is a point where such a program, at least as proposed, would work. We talk about increasing herd size. If we take this just on the basis of present circumstances, we may assume that it may at least level off and we should rather accept the fact that we are not increasing and does this not mean that there are some economics in the situation that if we continue to pursue these by setting up class A base plans, that we would not be disrupting this, because we are not going to increase the price of the surplus milk marketed in these order areas?

Mr. MURPHY. That is true. The production of milk is down as compared with a year ago—about 1 percent so far this year. We think that this is due in large part to the weather—rather severe drought conditions in a good many different areas of the country. Also this year there has been some increase in the consumption of milk or the utilization of milk. The spread between production and consumption, considering the total size of the industry, is not very great. As a relative matter, it is not very great. It is big enough to be very troublesome in operating the program, but relatively speaking, it is not very great.

We would think that if the pressure is taken off that is created by the blend price under the marketing orders, this would be helpful in reducing the production. The trend is going down, anyway, and it could be accelerated some. It would operate very slowly, I should say, in all frankness. We think that it will be a fairly long drawn out process to get this system into effect, but it would move in the direction that you indicate.

Mr. OLSON. In relation to a producer marketing a small amount of milk in excess of his commitment.

I am in accord with the idea that perhaps if a man was trying to reduce his production 5 percent and he was receiving the 40 cent payment, and he went over in one quarter his marketings by 100 pounds, would it not be realistic to pay him for that one quarter at the 20 cent rate and then in the next quarter provide him with the ability to reduce his marketings below the 5 percent by that 100 pounds, and then go back and be able to pay him for it?

Mr. MURPHY. That would seem to be an equitable solution, yes.

I would think that we ought by amendment or administrative action or in some way avoid excessive penalties for relatively small excesses in marketings, particularly if it is a mistake made in good faith.

Mr. OLSON. If the man were complying, in other words, certainly did everything he could, he should be given that privilege to take care of it in the next quarter, so that he could then pick up and get in line; in other words, make it for 6 months rather than one quarter.

Mr. MURPHY. That is correct. Probably we should have an opportunity to consider this on a staff basis. It occurs to me that since the plan is to operate under agreements with the Secretary, that these agreements might well in themselves take care of this kind of problem.

Mr. JOHNSON of Wisconsin. I think that the average farmer knows how much milk he is sending in every day and if he finds that he is running over he would be aware of it. Since he has a record on his farm of how much milk he is sending in every day, I do not think that it would be much of a problem for him to know whether he was within the requirement or not.

Are there any further questions?

Mr. Beermann?

Mr. BEERMANN. How many employees will the Government need to perform all of the functions if this bill becomes law?

Mr. MURPHY. We do not have any estimate on that, Mr. Beermann.

Mr. BEERMANN. Is it the assumption that you will need additional employees more than what you have now?

Mr. MURPHY. I would think that we certainly would need some additional employees.

Mr. BEERMANN. Could you provide some kind of an estimate for us on the number?

Mr. MURPHY. We can, and we will be glad to do so.
(The information referred to follows:)

It is estimated that the dairy payment program could be carried out by about 1,200 additional man-years a year. This is based on experience in the wool payment program, the same assumptions with respect to participation as for the cost estimates in the table accompanying the prepared statement, and the decrease in purchases.

The establishment of bases in Federal orders of the types set forth in H.R. 8357, H.R. 7120, and H.R. 7261 would require some additional personnel both at the Washington level and in the Milk Marketing Orders Administrator's office. It is estimated that about five additional employees would be needed in Washington to handle the work of amending present orders and supervising their administration. In those orders where base plans were established, it is estimated that about a 10-percent increase in employees might be required. This would vary, however, depending on the market. In those markets which presently have seasonal base plans a much smaller increase in personnel would be required. In some markets where a substantial number of producers might sell milk both within and outside the marketing area a somewhat larger increase might be necessary. We have had no experience under the Federal order program upon which to base a more precise estimate.

Mr. BEERMANN. How would you provide the funds for reducing the production—do you have an estimate of how many pounds reduction there will be—and will you ask for an appropriation for that amount—or how will you provide the funds?

Mr. MURPHY. My recollection is that the bill provides for the payments to be made by the Commodity Credit Corporation. And I take it that the payments would be made out of the same funds that are used for other expenditures of the Commodity Credit Corporation. The system there, as you know, is for the Commodity Credit Corporation to borrow money from the Treasury, to make the expenditures and later appropriations are made to reimburse for the expenditures. This would come out of the same funds.

Mr. BEERMANN. Is it the system to reimburse the Commodity Credit Corporation at the end of the year?

Mr. MURPHY. That is correct, in the same manner that it is reimbursed for the payments made in the feed grain programs.

Mr. BEERMANN. This is another expense charged to the farmer?

Mr. MURPHY. Sometimes people characterize it as such.

Mr. BEERMANN. If there is disagreement among the dairymen in the milk marketing order areas or in other areas on this law, if it should become law, how do they voice their objections—how would the differences be settled?

Mr. MURPHY. Well, as to the base excess plan provisions of these bills the views of the producers would be determined in referendums when the plans are formulated. When the plans are formulated they will be submitted to the vote of the producers affected in a referendum.

As to the payment provisions I take it they would operate in the same manner that the feed grain program does, that it is a voluntary program. The opportunity to participate is made available to the producers. Each producer decides for himself whether he wishes to participate or not.

Mr. BEERMANN. Each producer decides for himself whether he wishes to participate. And if a referendum is held does each producer get one vote?

Mr. MURPHY. My understanding is that when a referendum is held under marketing orders that each producer has one vote. And that the cooperatives are usually authorized and usually do cast a vote on behalf of their members.

Mr. BEERMANN. So that if there are members who might disagree they will have to abide by that decision?

Mr. MURPHY. I would expect that to be the case as the bill is now written, yes. This is the case in reference to other provisions of Federal milk marketing orders.

Mr. BEERMANN. Thank you. That is all.

Mr. JOHNSON of Wisconsin. Mr. Belcher?

Mr. BELCHER. I guess it is to be presumed that there would be less production under this program than there is under the present program, would it not?

Mr. MURPHY. According to our best estimates, yes.

Mr. BELCHER. Do you have any estimate of how much this would reduce the production?

Mr. MURPHY. We do, it is included in the table that is attached to the last part of my statement, Mr. Belcher, on page 5 of the statement, which is the first page of the table. I believe the second line represents our estimates of the total milk production. And then in the column 3 you see what our estimate is under the present law. Column 4 estimate is 124.9 billion pounds with a base-excess plan only and 120.9 billion pounds under the base-excess plan plus payments.

Mr. BELCHER. It would be 5 billion pounds less under the base-excess plan plus the payments plan?

Mr. MURPHY. That is correct.

Mr. BELCHER. And about 600 million pounds or less with the excess plan only?

Mr. MURPHY. That is correct.

Mr. BELCHER. I notice down here in 1962-63 the program cost \$511 million, is that correct?

Mr. MURPHY. That—

Mr. BELCHER. That is next to the bottom.

Mr. MURPHY. That is correct.

Mr. BELCHER. And in 1963-64 it will cost \$484 million under the present plan?

Mr. MURPHY. I think that is right, yes, sir. On the next page, Mr. Belcher—

Mr. BELCHER. What is that?

Mr. MURPHY. If you would look at the next page that has some additional information about expenditures. You will see that it has a line called "Sales proceeds," and then under that a line called "Total net program expenditures," which shows that under the present program—

Mr. BELCHER. What is the total net program—is that for 1962—the total is \$480 million?

Mr. MURPHY. That is right.

Mr. BELCHER. And then \$453 million for 1963?

Mr. MURPHY. That is our estimate—of course, that is an estimate.

Mr. BELCHER. And it would be \$427 million for the base excess plan?

Mr. MURPHY. That is right.

Mr. BELCHER. And \$416 million for the base excess plan plus the payments?

Mr. MURPHY. That is right.

Mr. BELCHER. The base plan plus payments would save about \$64 million in actual expenditures?

Mr. MURPHY. No, sir, I do not believe it is that much. It is the difference between \$416 million and \$453 million—what is that, \$37 million?

Mr. BELCHER. Yes, that is right—about \$37 million.

Mr. MURPHY. \$37 million, yes. And would result in an increase in producer net income of \$150 million.

Mr. BELCHER. Where does this \$150 million come from—does the Government put it up? You will have less milk—who is going to pay the difference?

Mr. MURPHY. At the present time the support price of milk is \$3.14 per hundredweight and it costs us something over \$4.25 per hundredweight to buy it in the form of dairy products, because of the added expense involved in processing and things of that kind. So it seems to us that Government expenditures would be reduced to the extent that we can keep this milk from being produced and to pay less than \$4 for it.

You will note that figure here, the effect on producer income, is in terms of net income. That takes account of the fact that there would be some producer savings in costs by reason of producing a smaller quantity of milk. I think this is part of the total amount that we deal with. And the other is the saving to the Government that would be realized by reason of the smaller processing cost—that is, the processing cost for a smaller quantity of milk. There would be some reduction in gross income of the processing plants. This milk would be processed into manufacturing products. And this is, certainly, a substantial portion of the savings.

Mr. BELCHER. In other words, the farmer would get \$150 million now which has previously gone to somebody else—that is where you get the \$150 million? What I cannot understand is that if we are going to get less milk and the Government is going to put up less money and the farmer will get more money, somebody will have to make up the difference.

Mr. MURPHY. We could look at those figures, the last part of page 6, Mr. Belcher, again. You see the last group of figures there of about four lines?

Mr. BELCHER. Yes.

Mr. MURPHY. It shows the figure for dairy farm cash receipts from marketings of \$4,775 million. That is less by almost \$100 million than the corresponding figure in column 3 which is the amount we would estimate that the farmers will get from cash marketings under the existing law.

Then the next line shows that the farmers would receive, by way of payments in column 5, \$151 million, making a total of \$4,926 million that the farmers would get from proceeds of sales plus Government payments.

I think we might compare that with the total receipts in column 3 of \$4,871 million. The farmers in column 5 would get something over \$50 million more from marketings and payments. The balance

of increase in net income results from lower expenses. They have lower costs because they produce less milk.

Mr. BELCHER. I do not see how you are going to sell less milk—the farmers will sell less milk and the Government is going to give them less money and they are going to have \$150 million more than they are getting now. Somebody has to put up \$150 million. If not, it is a pretty good trick, if you can sell less milk and get less payments and still have more money. Somebody is going to have to pay you more money for the milk that you sell.

Mr. MURPHY. Well, first, we think it is a good trick. We think it is good for the farmers and good for the Government. I do not believe I could add anything to what is indicated in these estimates here. We estimate that the receipts from the sale of milk would be smaller, because less milk would be sold. The Government payments would be enough to make up for that with something over. And, in addition to the larger amount of money received, the farmers' net income would be increased because their costs would be lower because they would produce less milk.

Mr. BELCHER. As I understand it he is going to get more money than he is actually getting now.

Mr. MURPHY. That is right.

Mr. BELCHER. And he is going to get that money from somebody. The Government is not going to give it to him.

Mr. MURPHY. Part of it, the Government will.

Mr. BELCHER. The Government is going to be giving him a lot less money than he is getting now and the farmer is going to be getting more money than he is getting now, and he will be selling less milk than he is selling now—somebody will have to make up the difference.

Mr. MURPHY. The Government will be paying him less as a part of the purchase price of the surplus milk which he would otherwise produce and market. The Government will be paying less to processors for processing that milk. If he produced the milk and put it on the market he would get \$3.14, the processor would get something for processing it and we would pay something for storage and handling and administrative costs amounting altogether to something over \$1, so that the total cost to us is \$4.25 per hundredweight, and to the extent that he does not produce this 100 pounds, for each 100 pounds that he does not produce we save for the Government \$4.25. In effect, we would pay part of that to the farmer directly, but not all of it.

Mr. BELCHER. I still get back to the point that somebody will buy less milk.

Mr. MURPHY. Yes, sir—

Mr. BELCHER (continuing). Than he is buying now.

Mr. MURPHY. That is right.

Mr. BELCHER. And the Government is going to put up less money than it is putting up now.

Mr. MURPHY. That is right.

Mr. BELCHER. Then the farmer will get \$150 million more than he is getting now.

Mr. MURPHY. That is right.

Mr. BELCHER. That is a very good trick.

Mr. MURPHY. That is exactly what we think—that is why we think—

Mr. BELCHER. Where is the \$150 million going to come from, because somebody will have to pay it and I would like to know. The fellow that puts up that \$150 million has not been disclosed yet and he might kick.

Mr. OLSON. Will you yield?

Mr. BELCHER. Yes.

Mr. OLSON. The Government is the one that buys less milk.

Mr. BELCHER. The Government is going to spend less for milk than it is spending now.

Mr. MURPHY. That is right.

Mr. BELCHER. The farmer will not produce as much milk, and yet the farmer is going to get \$150 million more than he is getting now. Where is the \$150 million coming from?

Mr. JOHNSON of Wisconsin. The Government is buying milk for \$4.25 a hundredweight now and they are going to pay the farmer up to \$2.50 to reduce his production.

Mr. BELCHER. It still does not answer my question. The Government is putting up less money—that is what I am saying—and the farmer gets more money, then somebody is going to have to make up the difference between what the Government pays and what the farmer gets.

Mr. JOHNSON of Wisconsin. The processor will not be getting as much for processing all of this milk as he is getting now.

Mr. BELCHER. The consumer will pay the same price for the milk as he is paying now. That is a good trick.

Just let us get that straight now. The farmer is going to produce less milk, the Government will pay him less, the consumer is going to get milk at the same price, and the farmer will get \$150 million more than he is getting now. If that is not a good trick, I do not know of one.

Mr. JOHNSON of Wisconsin. The Government now is not paying the farmer anything. He is buying the manufacturing product from the processor.

Mr. MURPHY. There is one other line in these tables that I would like to call attention to. I think it is relevant to this discussion.

On page 5, which is the first page of the table, near the bottom of the page, there is a line entitled "CCC Net Expenditures, Purchases (Gross)" which indicates the amount that we would estimate we will have to spend to purchase surplus dairy products under the existing law. And under these proposals—you will see that under column 3 the figure is \$484 million and in column 5 the figure is \$296 million. This represents our estimate of Government savings by reason of the smaller production of milk. We feel and I think I can express it by saying that we can divide the savings with the farmer, and the Government and the farmer will be better off than would be the case if he went on and produced this milk for which no one has any reasonable use on earth.

Mr. BELCHER. Somebody is going to pay more money for less milk or you will not have the farmer getting that much money. The farmer now is selling more milk than he will be under this and he is getting paid for that by somebody.

Mr. MURPHY. That is right.

Mr. BELCHER. And he is not going to be selling that, so that will come out of his income.

Mr. MURPHY. That is right. He will get more money for less milk and we think that is a good thing.

Mr. BELCHER. If he gets more money for less milk somebody will have to pay more money for less milk.

Mr. MURPHY. That is true—that is true. And this difference will be made up by Government payments and the Government will be saving enough—

Mr. BELCHER. The Government will be paying less money than it is now paying?

Mr. MURPHY. It will be paying more directly to the farmer. It will be paying more directly to the farmer and not as much otherwise.

Mr. BELCHER. If this program is going to cost the Government less money and the farmer is going to get more money and he is going to produce less milk, somebody is going to have to put up the \$150 million that the farmer gets, because the Government will not be paying it because they will not be paying as much as they are paying now. There is a difference between that \$296 million and the \$484 million which will be about \$156 million or \$160 million—he is getting or is going to get less from the Government, now somebody will have to put up the money it looks to me like. You cannot get that out of foreign aid, can you?

Mr. MURPHY. No, sir. We get it, I think, out of the savings that are involved in not having to produce and process and store this excess milk. I think that is where it comes from.

Mr. BELCHER. Well, I still would like to know where the \$150 million is coming from, because the Government is not putting it up and he will not get it through the sale of the milk because he will not be selling as much milk.

Mr. MURPHY. The Government will be putting it up in a sense at the same time that the Government will be saving a larger amount—not a very much larger amount, but somewhat larger amount, by purchasing smaller quantities of milk. I think it can be said in short form that it is much cheaper for us to pay the farmer not to produce the milk than it is to let him produce it and pay a higher price for it in the form of processed products.

Mr. BELCHER. But if you pay him less money to do it, the farmer will get less money. I do not agree with your statement. If the Government actually puts out less money that the farmer gets, and the farmer produces less milk than he produces now, and the farmer gets \$150 million more than he is getting now, where is the \$150 million coming from?

Mr. MURPHY. He does not get \$150 million more. He gets, as I recall, between \$50 million and \$60 million more than he is now getting. The rest of the \$150 million is represented by lower costs and the lower costs come from the fact that he does not produce as much milk.

Mr. BELCHER. And the consumer price for the milk will be the same as now?

Mr. MURPHY. Yes, sir.

Mr. BELCHER. I still say that is a good trick.

Mr. MURPHY. We believe it will work out that way. We agree that it is a good trick.

Mr. JOHNSON of Wisconsin. Mr. Quie has some more questions.

Mr. QUIE. Last year the production of milk, as I understand it, was only 640 million pounds less and at the same time the number of cows

was reduced about one-half million. I imagine that this will continue as the production per cow increases and we will be getting rid of some cows. If you will accelerate this by reducing the production, according to the figures on page 5, by 4.6 billion pounds of milk, how many cows would this represent and how much beef does this represent going onto the market?

Mr. MURPHY. I could not answer that question now. I do not know that we have that figure.

Mr. EMERY. We do not have that information.

Mr. QUIE. Do you have the production figures? Undoubtedly, this could be determined.

Mr. MURPHY. I would certainly expect that the price of dairy cows would tend to be reduced some and I would think that the culling process would be accelerated and that most of the cows that are not used, that are not continued to be used for the production of milk would go into the beef market. What the number is I do not know. I would think that the number would not be great enough to have any large disruptive effect on the market. We will be glad to go into that question with our economists to give it some study and to give a response on it with the numbers and our judgment, if you think that would be useful.

Mr. QUIE. I think that it would. Insert that information in the record and, also, what the effect of, say, three-quarters of a million cows would have on the beef market.

Mr. MURPHY. We will give it in those terms, if you like. I would think that it would be more meaningful if we would give it in terms of the number we estimate that actually would be put on the market. The figure of three-quarters of a million may be exactly right and it might not—I do not know.

Mr. QUIE. I would—I was dividing the average production into the number to get that figure.

(The information referred to above follows:)

Participating dairy farmers would determine how they would reduce their milk production. They could do it by reducing the number of milk cows, lighter feeding, or drying off cows sooner than normal near the end of the lactation period. Assuming that 3.5 billion pounds, of the 4.6 billion pounds of reduction, were accomplished by a reduction in number of cows, and assuming that the additional cows culled would have averaged 7,000 pounds of milk a year, compared with the national average of 7,370 pounds in 1962, this reduction would require the additional culling of half a million cows. They would yield about 250 million pounds of beef which would be equivalent to $1\frac{1}{2}$ percent of the estimated total production of beef and veal in 1963. This would have a moderate temporary effect on cattle prices. Most of this effect would be on the lower grade animals.

Mr. BELCHER. On page 5 of H.R. 8357 it says:

The order may provide for such reports and the keeping of such books and records by producers and by the person or persons to whom he may dispose of milk as the Secretary may prescribe and upon request of the Secretary such person or persons shall make required records available for inspection.

Is there any method of enforcing that item anywhere in the bill? Suppose that the man does not keep good records, what position is he in? A lot of farmers do not keep records and this may force them to do so. Is there a provision here to force the farmer to keep these records? Suppose he just comes up and says, "I do not have any records"?

Mr. MURPHY. I would be glad to ask Mr. Krause to respond to that question, Mr. Belcher. Mr. Krause is from the General Counsel's Office and is generally familiar with the milk marketing order legislation.

Mr. KRAUSE. The marketing orders presently provide for reporting by handlers. This provision would authorize marketing order areas to require similar reporting by producers. Elsewhere in the statute there is a provision for enforcement of any provision of the statute by means of recourse to the district courts.

Mr. BELCHER. What about the man who is not in a marketing order?

Mr. KRAUSE. The marketing orders, of course, cover only those producers whose milk is subject to the marketing orders. I believe this particular provision that you read would be in the marketing orders.

Mr. BELCHER. In other words, if he does not keep records, what method would the Secretary have to enforce this provision that says that he shall keep records?

Mr. KRAUSE. I suppose that any agreement made with such a dairy farmer not under a marketing order would provide for that.

Mr. BELCHER. Mr. Murphy, I believe that Mr. Quie asked a question that may have given me the answer and may have thrown some light on where the \$150 million is to come from.

Mr. MURPHY. Yes, sir.

Mr. BELCHER. I think that maybe you and I did not understand each other earlier. It was the difference between net and gross. This net savings that the farmer makes is going to be because he distributes less feed.

Mr. MURPHY. And feeds less feed grain and, perhaps, has less cows. This is about \$100 million of the \$150 million. He actually gets more, something more than \$50 million, in money received.

Mr. BELCHER. And a lot less would come out of the feed grain program and you will have to turn around and buy the feed grains, because he does not feed it to his cows. I think I have discovered where you will get the \$150 million from—you will get it out of one program and put it right back in another program.

Mr. MURPHY. Well, not \$150 million. I think that we have to trim it down some. In the first place, as I indicated it is something less than \$100 million of this which is attributable to savings in costs. Certainly, all of these savings in costs would not be in feed, although a very large part of it would be. To the extent that they are in feed, why this would be reflected in the utilization of feed grains and in turn in the cost of the feed grain program. I think that is true.

Mr. BELCHER. What it gets down to is this point that we are going to save \$150 million, but we do not know who is going to pay it.

Mr. MURPHY. I do not say that we are going to save \$150 million. As I recall the estimated savings for the Government under this it was \$37 million—not nearly as large as we would like to see it, but not \$150 million.

Mr. BELCHER. The difference between \$296 and \$458 million, I thought it was that difference.

Mr. MURPHY. A part of that, you see, goes to make these payments to the farmers of \$150 million, as I remember the figure.

Mr. BELCHER. The Government is only going to save about \$37 million?

Mr. MURPHY. I think that is correct.

Mr. BELCHER. But the farmer will get an extra \$150 million—he will get that from somebody. The Government is not going to pay him. The consumer will not pay him. If he is going to raise this milk he has to sell it and he will have less to sell and somebody will have to put up the \$150 million. It is not the consumer. It is not the Government.

Mr. MURPHY. Yes; it is the Government—the Government, I think. The Government is going to pay him \$150 million.

Mr. BELCHER. And the Government will not save it, if they pay him.

Mr. MURPHY. The Government will save something more than that on purchases. The net saving will be after making the payments. The net savings to the Government will be \$37 million.

Mr. BELCHER. It is a good trick.

Mr. JOHNSON of Wisconsin. We have 13 witnesses and I hope that we can hear from a few more witnesses today. We have only 20 minutes left.

Mr. QUIE. Your reduction in purchase of excess milk it looks to me like that instead of buying 50 percent of all the nonfat dry milk in the country you will be buying a considerably lesser percent—what effect will this have on the processors in my area who produce nonfat dry milk—do you have any estimate of what this reduction would be since it looks to me like a great deal of this reduction will be made in that area.

Mr. MURPHY. I do not have any estimate in terms of the reduction in processing or the purchasing of nonfat dry milk. I think it is undoubtedly true—necessarily true—that the processing of milk as a whole would be reduced. The processors would have a smaller volume if there was a smaller surplus of milk marketed for manufacturing purposes and this is where a considerable part of the savings comes from that Mr. Belcher and I have talked about. There would not be payments made for processing this milk into manufactured products for which we do not have any use. I do not have any breakdown as between nonfat dry milk and the like.

Mr. QUIE. There would be a reduction in the payments to the processors—there would be less production, but the cheese processors would be very happy, because it would increase the purchases of cheese, according to your figures, and the Government purchases of cheese, if I recall is something like 13 percent of the total production, or if you get into an item like nonfat dry milk, in which the Government purchases something like 63 percent of the production, that reduction in purchases will have an economic effect on those people and I was wondering if you could not look into that to see what the figure is and what effect that will have on them.

Mr. MURPHY. We will be glad to do so, and to make such comments as we think would be helpful. I do not know why the estimate showed that the production of cheese would go up and that of butter and nonfat dry milk would go down so sharply.

Mr. QUIE. You can submit that for the record.

Mr. MURPHY. I will be glad to do so.

(The information referred to above follows:)

There are no provisions in the base-excess or payment proposals which would increase cheese purchases. While the combined purchase quantities in column 5 of the table are equivalent to the indicated surplus of 4.2 billion pounds of milk, it is more likely that purchases of cheese would be smaller and of butter

correspondingly larger. This would not change the amount of surplus milk or significantly affect the program cost.

Price support purchases of nonfat dry milk under the present 1963-64 program have been running well under a year ago. This is mainly because commercial export demand has been larger and more nonfat dry milk has gone directly from commercial sources into export outlets under the payment-in-kind program without coming into and out of CCC inventory.

Nonfat dry milk production has doubled during the last decade. Production of spray nonfat dry milk was a record 2,133,000,000 pounds in 1962-63 when CCC bought 60 percent of the output. Production in recent months has been above a year ago. If this continues, production may total 2,175 million pounds in 1963-64. It is estimated that reducing the milk surplus by about half, as is assumed in column five under a base-excess and payments program, would reduce nonfat dry milk production about 350 million pounds, or 16 percent from the present record level of production. CCC would still have to buy nearly half of the total production.

Mr. MCINTIRE. I am assuming that in all of the figures that you have quoted here so far as returns to the producers are concerned that you are assuming stable costs—you are assuming that the costs will remain at a stable level. I would like to just put in the record some figures on the basis of the index prices paid including taxes and farm labor and so forth which was 301 as of January a few years ago and is now 311. So, actually, we are dealing with narrow margins of gain which could quite well be wiped out by increased costs which is somewhat the pattern that is going on in the industry, is that not right?

Mr. MURPHY. That is right. I think that the principal value of these estimates is to compare the results that might be achieved under different programs, and in this case to compare the results that we might expect under existing law with the results that we might expect if one of these bills were passed. You have the problem of increasing costs of production in either case.

Mr. MCINTIRE. That is right.

Mr. MURPHY. That is correct.

Mr. MCINTIRE. Some parts of it are gaining all of the time.

Mr. MURPHY. In either case it is important under the existing law or under this legislation. I would agree with that thoroughly.

Mr. JOHNSON of Wisconsin. Thank you, Mr. Murphy.

Congressman Stratton is here and we will hear from him now.

STATEMENT OF HON. SAMUEL S. STRATTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. STRATTON. Mr. Chairman and members of the committee, I am happy to appear here again to testify on the subject of dairy legislation and once again it is my privilege to speak on this subject as a Member from New York, a State which traditionally ranks either second or third in the Nation in the production of milk—I noticed that the production for Minnesota was up last month or so—and also as the Member from New York who has the honor to represent more dairy farmers than any other Member from the State. In fact, I have been informed, although I cannot personally vouch for the accuracy of the figures—I would not undertake to dispute this with the chairman or the members of the subcommittee—that I have the honor to represent more dairy farmers than any other Member of Congress.

When I testified earlier before this distinguished subcommittee I pointed out that there was substantial interest among New York State dairy farmers in a class I base plan or the so-called two-price plan, and I also urged the committee's support for the same incentive reduction plan which was contained in last year's farm bill as it was reported out of the House and as I had resubmitted this legislation in H.R. 4745.

Since that time I have had the opportunity to determine in more detail the extent of New York State's support for both of these items of legislation.

Last March 29 I met in Syracuse, N.Y., with representatives of seven New York State dairy and farm organizations. As a result of that meeting five of the seven organizations, including three of the four major dairy cooperative organizations in the State, supported a "package" approach to dairy legislation which combined both the class I base plan and, as a transition feature, the incentive reduction plan continued in H.R. 4745. Of the four dairy cooperatives only the Dairymen's League failed to take a position on the "package." They were noncommittal, neither opposing nor actively favoring the plan. The Farm Bureau was opposed. So we have three of these dairy cooperatives supporting the package and one being noncommittal.

As a result of this meeting I introduced H.R. 6523, specifically embodying the "package" approach supported by the majority of farm organizations at the March 29 meeting. Subsequently, representatives of these same organizations, with the exception of the Farm Bureau, met in Washington on June 19 at my invitation with Members of Congress from New York State. The same lineup of supports was exhibited at that meeting for the same "package" approach.

Following this meeting the bipartisan steering committee of the New York State congressional delegation, chaired by Representative Emanuel Celler, also undertook to circulate the State's major farm organizations on the subject of dairy legislation and on August 25 received replies again indicating the same measure of support for this "package" approach.

The figures available to the steering committee on the size of the organizations favoring this "package" approach should be of particular interest. Independent sources indicate that there are roughly 30,000 dairy farmers in New York State. According to the replies received by the bipartisan steering committee dairy cooperatives representing some 18,200 farmers reported they favored the "package" approach of my legislation and one cooperative, representing 12,000 dairy farmers, said they had no opposition to it. I ought to spell this out perhaps. These are the three cooperatives, the Mutual Federation of Independent Cooperatives, the Metropolitan Milk Producers Bargaining Agency and the Eastern Milk Producers Association. The Dairymen's League was the cooperative which indicated they were not opposed to the legislation. It will be noted that the stated membership in these four cooperatives totals almost exactly the number of dairy farmers in the State, 30,000.

The two major general farm organizations in the State also responded to the committee's query. The Farm Bureau, with a reported family membership of 13,470, opposed the plan; the State Grange, with a reported 54,000 family members, supported the plan.

It is therefore, clear that as far as the dairy farmers of New York State are concerned there is an overwhelming majority in favor of the "package" approach.

Mr. Chairman, there is before this committee now another bill which I have had the honor to introduce, H.R. 8357. This bill is simply a revised, and I believe improved version of my original bill, H.R. 6235. Title I is revised to bring it in line with the improved version of the class I base plan recently worked out between the Department of Agriculture and representatives of the National Federation of Milk Producers, and subsequently introduced in the Senate, and reported favorably by the Senate Agriculture Committee, as S. 1915 by Senator Proxmire. Title II of H.R. 8357 is a streamlined and improved version of the incentive reduction plan, which eliminates certain extraneous and unnecessary sections contained in the original bill. Now let me make just three additional points.

First, the incentive reduction program contained in title II of my bill is intended to provide an easy and I believe necessary transition in the New York milkshed area between present arrangements and possible adoption of the class I base plan contained in title I of my bill. This transition measure would help to get a reduction in the current milk surplus started; it would do it on a completely voluntary basis, and it would pursue an arrangement which has already proved successful in the case of feed grains. H.R. 8357 provides for this transition program to run for 2 years, which would appear to be an adequate time to allow milk marketing areas to determine, according to the procedures established in title I, whether they approve or disapprove of a class I base plan. The farmers I have the honor to represent believe that such a transition program is necessary and so do I. I might, however, add that I am prepared to support the enactment of title I of my bill even if title II is not included.

Secondly, I should point out to the members of the committee that my bill is directed solely to milk marketing order areas—as the Secretary has indicated—since most of the farmers I have the honor to represent are included in such orders. I understand that there is some interest in having this feature apply outside of order areas as well, such as is the case with the McCarthy bill, S. 1961. I certainly would not oppose such legislation.

Finally, some farm spokesmen in my State have claimed that the class I base plan contained in title I of my bill is not really a voluntary program as I have indicated. They have tried to liken it to the wheat program recently voted down in a national referendum. Mr. Chairman, in my judgment nothing could be more inaccurate or misleading than to see any comparison whatsoever between this legislation and the wheat program. In the first place, as I have indicated, my bill was developed in answer to the express wishes of the farmers of my State and the organizations representing those farmers. Second, as I have already indicated by actual figures, it is supported by the overwhelming majority of those farmers. Third, this plan manifestly does not involve any kind of so-called pistol at the head referendum in which a farmer either votes "yes" or else is faced with the loss of all protective legislation, as was the case with the wheat referendum. The class I base plan would be subjected to a referendum. If two-thirds of the farmers do not support it you still continue to maintain the existing system. This is certainly a genuine voluntary choice.

It goes into effect only if two-thirds of the farmers support it. This is completely different from the wheat situation, and I would find it difficult to see how anything could be more voluntary or more in accord with the principles of democratic procedure.

Mr. Chairman, the farmers of my State and my district have long recognized the need to do something to get rid of the increases in surplus milk production. They recognize the need for some machinery to bring the supply of milk more nearly into line with the demand. They realize that to accomplish this result they must work together.

I believe that H.R. 8357 provides the machinery that will enable my farmers, as well as dairy farmers elsewhere in the country, to accomplish this result. I believe that the enactment of this legislation will have the support of the overwhelming majority of dairy farmers in New York State. I also believe that if the legislation is favorably reported to the floor by this committee, as I hope it will be reported, it will have the overwhelming support of the New York State delegation in the House.

Let me just make two other points that have not been included in my statement. One of them is to bring to the attention of the subcommittee a minor typographical error that appears in my legislation, H.R. 8357, on page 7, line 13. Where there is a reference to section 206, that should read, "section 204."

The second point I want to make is that I think it would be a mistake to lay too much stress in supporting this legislation on any estimated increases in income to the farmers. I think as the Secretary has testified there will be a net increase to the dairy farmers participating in the program, but I think that the important feature of this legislation, and I believe that here again I reflect the view of the farmers that I have the honor to represent, is that it is needed to prevent a further deterioration in the income of dairy farmers in my State and elsewhere, a situation that certainly could occur if we did not get this kind of corrective legislation.

Mr. JOHNSON of Wisconsin. Any questions, Mr. Olson?

Mr. OLSON. You said that you would not object to an amendment that would include payment in the manufacturing milk areas?

Mr. STRATTON. That is right. I would not object to that inclusion, but since I do not have that kind of a situation in my district, I did not feel that I was in a position to suggest exactly what kind of payment ought to be made to those outside order areas. I am introducing a bill which was reflective of the views and wishes and interests of the dairy farmers that I represent, but I recognize that if you have a program that will apply nationally, as I assume this one will, then something has to be done to take care of the farmers in these other areas as well.

Mr. OLSON. You represent New York State. Votes in order areas would have to be two-thirds for, regardless of what we do. This is a voluntary situation, but they also have to accept the legislation applying to their area.

Mr. STRATTON. That is right. This program would be voluntary in the sense that it would be up to the farmers in any market order area whether they wanted to even consider it. And as Secretary Murphy pointed out a moment ago, if they did not want to consider it, they do not have to consider it, and there would then be no movement

made to amend the order. The Secretary pointed out that the original approach of the Department was that if farmers did not initiate, or if they did not vote in such a class I base plan, then the Department itself could undertake hearings that would presumably result in a very drastic reduction in the income of the dairy farmers involved.

Now, that is the "pistol at the head" kind of referendum that was included in the wheat legislation and which the farmers of the Nation indicated very strongly they did not go for.

My proposal and the other proposals that have been made along the same line are voluntary in the sense that if any market order area wants to consider them, they can. If they do not want to consider them, they do not have to. And if they do not consider them, or if they consider them and then defeat the program in the referendum, they revert back to the current situation, which at least for many dairy farmers may not be very satisfactory, but at least it is not an all-or-nothing approach where, if farmers vote the amendment down, they lose virtually all support and protective legislation.

MR. OLSON. The purpose of your bill is merely so that the price can be identified for the class I use purposes, and he, the farmer, thereby would be able to take advantage of the economical production.

The reason he is in business in your area is to produce the milk for fluid use. This is what he economically needs to stay in business. And the adoption of the plan would enable him to do this, to produce this amount of milk, and he would be reducing his portion of the production of milk that goes into Government stocks, into the avenue of surplus.

He is not interested in producing it. The Government is not interested in buying it. Is that correct?

MR. STRATTON. That is correct. I think that there is one other point that should be made. I am not sure that it has been made. That is, under the blend price system, the individual who works a little bit harder to produce more milk, and this milk since it is additional milk, goes into surplus, is actually being paid for this milk not at the surplus price, but at the blend price. And so in a sense, the man who is contributing to this surplus is actually taking away some of the money that might otherwise go to other producers.

MR. OLSON. There is a direct connection with the manufacturing milk producers and what your farmer producers are being paid, because the producers under the Federal milk marketing orders are paid a blend price which is not any indication of what the surplus milk is worth. Yet this artificial price received in the order areas encourages surplus milk production.

MR. STRATTON. I cannot testify as to what the effects would be on the manufacturing milk areas, but certainly the present system tends to put a premium on producing more surplus and this I think is something that we do not want to have exist—we do not want to encourage surplus milk production—we are trying to discourage it.

There is also another aspect which I think most farmers would appreciate: That is that under the present arrangement with the blend pricing, you never know what you get for your milk until 4 or 5 or 6 weeks after you have turned it over to the producer, and that is a very strange way to have to operate. Under this plan, one advantage would be that when you turn in your production for your allotment, you would know exactly what you were going to get.

Mr. McINTIRE. Mr. Stratton, a question on that point. You established the level of the price that the farmers would be getting?

Mr. STRATTON. I beg your pardon?

Mr. McINTIRE. You would continue to establish the class I price by the formula within the marketing order?

Mr. STRATTON. Well, the point is that—

Mr. McINTIRE. So that a producer would know what he is going to get, you said, for his class I milk. That would be established by the formula, would it not?

Mr. STRATTON. What I said is perhaps an oversimplification. You do have some complexity in the sense that you have the reserve, a class I reserve; and therefore, strictly speaking, the price that you are going to get for your class I milk as is actually indicated in the legislation would be a blend price. That is on page 4, line 4, you would add in the lower price of the reserve.

Mr. McINTIRE. The reserve fund is covered somewhere. This reserve is 20 percent?

Mr. STRATTON. I do not think it is spelled out.

Mr. McINTIRE. That was spelled out in an example. So far as the producer is concerned, he is producing milk for marketing in his order territory under a class I base, but the price that he will receive for that will be calculated on the basis of the formula within the marketing order—the formula is there.

Mr. STRATTON. The same formula will prevail, yes; but the point I am making is that the price which a farmer received under the current blend system is determined by the end utilization that takes place in the area where the milk is sold; in other words, what the farmer in my district gets for his milk depends on whether in New York City they are drinking more milk or whether they are eating more ice cream. To this extent he has prior knowledge of his eventual return.

Mr. McINTIRE. True, it will stabilize the price in the class I area and they will have a base upon which you calculate it.

Mr. STRATTON. It does not eliminate the formula—you are quite correct.

Mr. McINTIRE. It does not eliminate the formula?

Mr. STRATTON. No.

Mr. McINTIRE. May I ask another question?

Mr. JOHNSON of Wisconsin. Yes.

Mr. McINTIRE. Do you agree with the Secretary that this legislation, particularly as to the payments and production adjustments, is transitional?

Mr. STRATTON. Right.

Mr. McINTIRE. I may not be correct in this statement, but I get your thought that you were saying that if in the market order territory, they accepted the base price, it is your thought that the production adjustment payments would not continue beyond a limited period and that you would propose to phase off the production payments?

Mr. STRATTON. That is right. Under my original bill I provided that as soon as the class I plan went into effect the surplus payments would terminate. I got some indication from the Department that from an administrative point of view, it would be a little bit easier to set a particular time at which the surplus program would go out of operation entirely.

This might mean that in any particular order area, they might overlap for a period of a few months. I had 18 months as the outside period in which this surplus payment could be made. In my new bill I simply said that these payments would go out of operation at the end of 2 years. If somebody were quick enough in an order area to get the class I base in, let us say, within 12 months, then under this legislation they could continue surplus payments for another year. But my idea is that surplus payments should be transitional you should not be able to get both class I base and surplus payments as a permanent situation.

Mr. McINTIRE. H.R. 8357 does not have this terminal provision in it?

Mr. STRATTON. Yes, it does have a terminal provision in it. Section 204 limits the period to 2 years. It is at the bottom of page 9 where it says:

No producer may receive a surplus reduction payment under this title with respect to reductions in marketings occurring more than 2 years after the enactment of this act.

And I think, as a practical matter, it will take, probably, 18 months before an order area would be able to conduct a hearing and then get proposal up for a referendum and get the referendum approved and so on. So that I do not think that the difference between this and my previous formulation is very substantial.

Mr. McINTIRE. Assuming that this were enacted into law and you proceeded to bring into consideration the class I base provisions herein would the producer then be looking at the openings which would offer the best proposition in his interest to favor the class I base or to continue to accept the reduction adjusted payments—would there be such an opportunity?

Mr. STRATTON. That is exactly the reason I do not think that the reduction payments plan ought to be put on an indefinite basis. There are some, I think, who favor it. Some of the people I have the honor to represent would favor continuing it for 3 or 4 or 5 years. I do not go along with that. I think that it ought to be used as a transitional program. We all know that it will take some time to get the machinery for this class I base in operation.

It seems to me that it would be a mistake, however, for us to do nothing about limiting the surplus production during the 12 or 18 months of redtape that is involved. And, therefore, the surplus plan strikes me as an immediate and effective way of getting some reduction. But I do not think that I, personally, am any more sold on the idea of paying people not to produce as a general policy, as an indefinite policy, than are some of the members of this subcommittee. So that when an individual producer decides how to vote on the referendum I don't think he ought to be able to say, "If I do not go for this program, I can still get my surplus payments indefinitely."

Mr. McINTIRE. Thank you.

Mr. BEERMANN. And Congressman Stratton, in the implementation of the class I base plan—in its submission to a referendum, you feel each of the farmers should vote individually rather than block voting?

Mr. STRATTON. Yes. I should have mentioned that. I do not think, actually, this is spelled out in the bill. I, personally, would feel very strongly that there should be no block voting in this kind of a referen-

dum. I know that Senator Proxmire said this himself when I testified before the Senate committee earlier, that he, too, would favor the elimination of block voting. But I am afraid the point is not actually spelled out in the legislation. I took the formula that had been worked out between the Department and the National Milk Producers Federation, in the interest of trying to get a formula that would get the largest agreement. But it does seem to me that to the extent that you have block voting you would not have as genuine a referendum as you ought to have on anything as sweeping as this is.

Mr. BELCHER. Did I understand from your statement—I believe I did—even though the transitional payment plan was not adopted that you would still go along with the class I base plan?

Mr. STRATTON. That is right.

Mr. BELCHER. In other words, if that was not included you would still accept the other?

Mr. STRATTON. That is what I said. I do not know whether this is a wise bargaining statement, but there is, certainly, enough interest in the class I base plan in my district, so that I would feel that I was representing my farmers to support it.

Mr. BELCHER. You think it should stand on its own feet, regardless of that—you would prefer the payment plan, but there is enough merit to the class I base plan to have that?

Mr. STRATTON. Yes, indeed. I certainly would. I think that the inclusion of it strengthens the program and it starts a process which will eliminate the kind of thing that has been plaguing our farmers, but I would not vote against the program because that feature was eliminated.

Mr. BELCHER. This bill of yours applies to just the marketing order areas—it has nothing whatever to do with the other areas?

Mr. STRATTON. That is right, but with a very slight change it could be made applicable to the other areas.

Mr. BELCHER. It is partly applicable to the rest of the areas. If the payments were continued for 2 years, at the end of that time it would still not apply to the nonmarketing areas, would it?

Mr. STRATTON. I do not understand—maybe I did not get your question.

Mr. BELCHER. If you discontinued the payments, in other words, at the end of 2 years that would eliminate any benefit whatsoever to the nonmarketing order areas?

Mr. STRATTON. That is correct, but I think that something would have to be done—something would have to be worked out for those who are interested in the nonmarketing order areas.

Mr. BELCHER. But you agree to have it discontinued so far as your area is concerned, but the payments to continue as to nonmarketing areas, do you?

Mr. STRATTON. This—well, if this was the key to getting the legislation through, I, probably, would not vote against it. As I say, as a general policy, I am not much in favor of paying people not to produce, but as I understand the formulation of this feature in the McCarthy bill—and I believe it is similar to the one introduced by the chairman of this committee—this is not exactly the case. For the manufacturing milk areas you would not actually be paying them not to produce; you would be paying them a little bit more, as the Secretary proposed here a moment ago, for producing a reduced amount. This is a philosophi-

cal difference, perhaps, but it is one of those philosophical differences that sometimes seem to be the toughest ones to handle.

Mr. BELCHER. In this bill, it is the bill of the National Federation of Milk Producers Association bill, is it not?

Mr. STRATTON. Right.

Mr. BELCHER. And you have added on the other proposed part and put the two together to get both sides, is that it?

Mr. STRATTON. No; it is simply that I am trying to reflect the views of my farmers. The last time I testified here I said that traditionally in New York State—I am sure that members of this subcommittee are aware of this—it has been very difficult to get any kind of agreement out of our farmers on what the legislation ought to be. There were many who said, "Washington ought to stay away from it." And there were others who were interested in legislation. We have always seemed to be somewhat at cross purposes in the past. But in the last year there has been a surprising agreement on the kind of legislation we ought to have. In order to explore this more fully I called a meeting of all of the dairy organizations in our State last March 29 in Syracuse, to find out exactly what we could agree on. And the remarkable thing was that three out of the four cooperatives and five out of the seven farm organizations agreed on this package approach of a two-price plan together with a transitional reduction program. And so I introduced the bill not to try to keep everybody happy, but simply to represent what the majority of the farmers that I represent wanted.

Mr. BELCHER. Well, now, there has never been much opposition to the one-price base plan?

Mr. STRATTON. Oh, yes, yes; the Farm Bureau is opposed to it and they have always been very vocal in New York State, although, as I indicate, I do not think that they represent a majority of the farmers. There are those who have been disturbed—individual farmers who have been disturbed—about the implications of this kind of a program.

Mr. BELCHER. Do the majority of the dairy farmers go along at all with the class I base plan?

Mr. STRATTON. This has been a new development, Mr. Belcher. The majority of our farmers have gone along with the milk orders that we have, but the idea of having bases or allocations, certainly, that is a new idea. What was new was that in the past 9 months to a year there has suddenly grown up a sentiment on the part of our dairy farmers that, perhaps, in order to protect themselves, they would have to work together along the lines of some such legislation as this if their economic status was not to be eroded, completely eroded by surplus milk production.

Mr. BELCHER. Thank you.

Mr. JOHNSON of Wisconsin. Thank you, Mr. Stratton.

Mr. STRATTON. Thank you very much.

Mr. JOHNSON of Wisconsin. Congressman McFall of California wishes to file a statement, and without objection, that may be done. (The statement of Hon. John J. McFall follows:)

STATEMENT OF HON. JOHN J. MCFALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, thank you for the opportunity to make this statement on H.R. 7261, which you have introduced, and similar bills introduced by Mr. Olson of Minnesota and Mr. Stratton of New York.

I wish to express my general support for the measures under consideration. Secretary Freeman has indicated that legislation similar to the proposals before the subcommittee could result in \$130 million additional income for our Nation's dairy farmers and at the same time reduce the cost of the present support program by \$148 million during the next year.

This would result from a program of incentive payments for voluntary reductions in production.

We are still faced with a costly support program despite the reduction a year ago in April in the level of supports for manufacturing milk from \$3.40 to \$3.11 per hundredweight. Net cost to the Federal Government for the program last year was \$480 million and it is estimated that it will be \$435 million for the present marketing year.

In order to be truly effective, any legislation which is enacted should not be restricted only to the 40 percent of milk marketed under Federal marketing orders but also should apply to the 60 percent in areas which are not under such orders.

California's dairy farmers are in serious trouble. Although California's class I price for class I usage is determined by State law, many dairymen have such a low percentage of class I milk that their blend price often is below the cost of production.

They need a program which will increase their income or many will not be able to remain in business much longer.

Added to other problems in recent months has been the growing amount of sweet cream imports from New Zealand. This cream has undercut present prices and has closed some previous markets. As a result, there has been an additional burden on the support program.

I have contacted the Department of Agriculture and the White House to urge action to halt the erosion of these markets. Import quotas to prevent impairment of agricultural support programs are authorized under the Agricultural Adjustment Act and I hope that administrative action will be forthcoming shortly.

While this is not directly related to the proposals under consideration today, I bring it to your attention to emphasize the seriousness of the situation facing dairymen in the 15th District of California and others throughout our State.

The approach outlined by the bills now being considered by your committee seems to be a reasonable one and promises to provide considerable improvement over the present program.

Mr. JOHNSON of Wisconsin. I have a letter here addressed to the chairman, from Mrs. Grace McDonald of the California Farm Research and Legislative Committee which, without objection, will be placed in the record.

(The letter dated September 12, 1963, follows:)

CALIFORNIA FARM RESEARCH AND LEGISLATIVE COMMITTEE,
Santa Clara, Calif., September 12, 1963.

HON. LESTER JOHNSON,
Chairman, Subcommittee on Dairy, House Committee on Agriculture, House Office Building, Washington, D.C.

DEAR MR. JOHNSON AND MEMBERS OF THE SUBCOMMITTEE: The California Farm Research and Legislative Committee supports the three bills, H.R. 7261, Johnson; H.R. 7120, Olson; and H.R. 6523, Stratton; which we believe would—

- (1) Increase the income of dairy farmers throughout the Nation;
- (2) Reduce Government costs; and
- (3) Reduce Government stocks of surplus dairy products.

Our opinion is that any program designed solely for producers of class I milk in which bases are to be established in Federal market areas would discriminate against producers of manufacturing milk, including those in Federal market areas with low percentages of class I usage and that producers outside Federal market areas must be included in any effective Federal legislation.

Producers of manufacturing milk in California cannot stay in business at present Federal support price levels—they are in serious need of a program which will substantially raise their incomes or their number will continue to diminish as it has in the past several years.

California's class I price for class I usage, is, as you know, determined by State law. But too many dairymen, particularly in our central valleys, have so

low a percentage of class I milk paid for at market milk prices, that their blend price is in too many instances below cost of production.

We believe that the Johnson, Olson, Stratton bills will bring substantial relief to the majority of California dairymen and to the industry in general, while clearing up the public image based on Federal surplus investment in dairy products.

A letter from Secretary of Agriculture Orville Freeman to Senator Allen Ellender, chairman of the Senate Committee on Agriculture and Forestry, dated August 20, 1963, while referring to the McCarthy Senate bill S. 1961, seems equally applicable to the House bills before you for consideration. The letter states that milk production would decrease from 125.5 billion pounds in the 1963-64 marketing year to 120.9 billion pounds; that manufacturing milk and cream production would drop from 64 billion pounds to 59.4 billion. (Table on p. 21, S. Rept. No. 449.)

On the basis of this information it is estimated that excess milk production would be cut by at least 50 percent which would reduce Government costs by some \$37 million annually. The increase in net farm income is not a tremendous amount, but \$150 million a year channelled into operations which are teetering "in the red" will be valuable.

On the basis of the USDA letter there would be a 20 cents per hundredweight Government payment to dairymen who do not exceed their present base marketings and a 40 cents per hundredweight payment to those cutting back production by 5 percent. The USDA estimate assumes that 50 percent of manufacturing milk producers will participate on the basis of present marketings and 20 percent will cut back 5 percent.

We regret that it is impossible for our committee to appear in person to testify in support of H.R. 7261, H.R. 7120, and H.R. 6523. However, we have asked Representative Harlan Hagen to have this letter read into the record at the hearing.

Thank you for your cooperation, and we sincerely hope that your subcommittee will recommend concurrence in these bills by the full committee.

Sincerely,

GRACE McDONALD
Mrs. Grace McDonald,
Executive Secretary.

Mr. JOHNSON of Wisconsin. I have a letter here from the National Creameries Association dated September 16, 1963, which, without objection, will be placed in the record.

(The letter dated September 16, 1963, follows:)

NATIONAL CREAMERIES ASSOCIATION,
Washington, D.C., September 16, 1963.

HON. LESTER JOHNSON,
Chairman, Dairy Subcommittee, House Committee on Agriculture,
U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN JOHNSON: I very much regret that I shall be unable to appear at the hearings before the Dairy Subcommittee on H.R. 7261, H.R. 7120, and H.R. 6523, scheduled for September 17-18, 1963. It is imperative that I be out of the city during this period and, as I understand it, only 2 days of hearings are scheduled.

In view of this, I wish to express very briefly my views in connection with these bills and to have this letter entered in the official record of the hearings.

As you will recall, I testified before the Dairy Subcommittee of the House Committee on Agriculture at considerable length on March 20, 1963, concerning H.R. 963 and H.R. 3552, bills which in many respects are similar to those which you will consider at the September 17-18 hearings.

The major portion of my testimony at the prior hearings dealt with so-called class I base bills and, therefore, is appropriate to the first section of H.R. 7261, the first section of H.R. 7120, and title I of H.R. 6523. The sections just noted cover class I base bills.

Our current opinions in respect to these class I base provisions of dairy bills are well summarized in the statement we presented before the Dairy Subcommittee on March 20 which is quoted below (page 8 of original statement):

"1. The class I base bills will not, as I have indicated, reduce production in fluid milk order markets.

"2. Being permissive, producers will not accept such programs unless their gains are enhanced above the level they already receive under the orders.

"3. Such programs thus pave the way for further enhancement of class I prices, either by official action of USDA or by the negotiation of marketwide premiums over the official class I price.

"4. The bills, in my opinion, inevitably will result in almost insurmountable trade barriers to the entry of: (a) milk currently unregulated; and (b) milk regulated under other Federal orders.

"5. Such programs, if effectuated, would result in great pressure to increase class I prices either by official action of USDA or by negotiation of marketwide premiums. The extent of the pressure would relate directly to the desire to maintain and enhance gross income, and the opportunity for such maintenance or enhancement of gross income due to sheltering the market from competition of unregulated milk or milk originating under other orders.

"6. Insofar as bases under this program become valuable, over a period of time they would markedly increase average costs of production, prices of fluid milk to consumers, and, thus, are not desirable from the point of view of costs and consumption.

"In closing this phase of my testimony, I would suggest that it would be more desirable, appropriate, and more nearly in the public interest and the longrun interests of producers to amend the act so as to force its administrators to develop a more realistic class I price policy, and to deny the benefits of the order system to markets which will not accept such new criteria and let them go it alone."

The second sections of the bills, as I understand them, would authorize a program of payments to producers who voluntarily reduce their production or marketings as specified.

We do not object to a nationwide program of voluntary production adjustments with farmers who reduce their production or marketings receiving payments to compensate them for such reduction in production or marketings. We would be less than candid, however, if we did not state that we are unable to determine how effective such programs would be upon reducing the large volume of surplus milk being produced in the United States at the present time. However, as stated, we certainly have no objection to such program being inaugurated and our resolutions of 1963 cover this matter generally as follows:

"Disposition of CCC purchases has become increasingly difficult, due to the fact that foreign relief distribution as butter, butter oil, and ghee, which provided the major outlet for the huge CCC surpluses of 1952 and 1953, currently appears to be a limited outlet. This is a very dismaying development, and indicates that, with heavy purchases by CCC currently, the CCC inventory, particularly of butter and nonfat dry milk, will continue burdensome.

"It is clear that, if producers are to receive incomes higher than those that would be secured at 75 percent of parity, such income enhancement must be achieved in some manner other than higher percentage of parity support prices. Raising price supports to accomplish such enhancement of income merely causes declines in consumption, increases in production, and large and practically unmanageable surpluses in the hands of the CCC.

"Therefore, we recommend that enhancement of income above that provided by 75 percent of parity support prices, be achieved by payments to producers; provided that, in view of the current heavy inventory position in the hands of CCC, it appears necessary to institute a program of direct payments.

"We state further that, in the event a payment program to enhance incomes to producers is instituted, a voluntary production adjustment program should be seriously considered.

"We emphasize that it is necessary that arbitrarily high prices established for fluid milk in Federal order markets must be adjusted to a proper relationship to manufacturing milk prices, that the buildup of surpluses in these markets must be stopped, and current practices of limiting the entry of qualified producers under the order must be discontinued."

In addition to this general resolution, members of the subcommittee will no doubt recall that we have recommended to the Congress this year, in company with the National Milk Producers Federation and the American Butter Institute, that a program of direct payments to producers, through plants, be instituted in respect to butter and, if necessary, other manufactured dairy products.

We are not, however, willing to accept any of the class I base provisions of dairy legislation now before the Congress as a part of a package. We think

that the class I base bills, in the long run, would be so extremely detrimental to the dairy industry of the United States and particularly to those producers and organizations which we represent, that we cannot willingly accept legislation which, as a part of the package, provides for a program of class I bases, i.e., fixed bases, in Federal order markets.

Accordingly, it would be our view that the Dairy Subcommittee, if it feels that something must be done to provide a voluntary adjustment program, should make this program nationwide in scope and, further, that the committee should reject all class I base bills now before it.

Respectfully submitted.

OTIE M. REED,

Executive Director, National Creameries Association.

Mr. JOHNSON of Wisconsin. The subcommittee will stand in recess until 10 o'clock tomorrow morning.

(At 12:20 p.m. the subcommittee recessed, to reconvene 10 a.m. on Wednesday, September 18, 1963.)

MILK MARKETING ADJUSTMENTS

WEDNESDAY, SEPTEMBER 18, 1963

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DAIRY OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1310, Longworth House Office Building, Hon. Lester R. Johnson (chairman of the subcommittee) presiding.

Present: Representatives Johnson of Wisconsin, Olson, McIntire, Findley, Beermann, and Belcher.

Also present: Representative Duncan; Martha Hannah, staff; Hyde H. Murray, assistant clerk; and Robert Bruce, assistant counsel.

Mr. JOHNSON of Wisconsin. The subcommittee will please come to order.

Our first witness is the Senator from Minnesota, the Honorable Eugene J. McCarthy, who is not present at this moment, but will be later. We will now call as our next witness, Mr. Edwin Christianson, president of the Minnesota Farmers Union and Mr. Gilbert C. Rohde, president of the Wisconsin Farmers Union, accompanied by Mr. Reuben Johnson, legislative representative of the National Farmers Union.

We shall be glad to hear from you now.

STATEMENT OF EDWIN CHRISTIANSON, PRESIDENT, MINNESOTA FARMERS UNION, AND CHAIRMAN, EXECUTIVE COMMITTEE; ACCOMPANIED BY GILBERT C. ROHDE, PRESIDENT, WISCONSIN FARMERS UNION, MEMBER, EXECUTIVE COMMITTEE, AND REUBEN JOHNSON, LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. CHRISTIANSON. Mr. Chairman and members of the committee, we are real pleased that we are appearing here today before your subcommittee. We represent both the Minnesota Farmers Union and the Wisconsin Farmers Union and also speak in behalf of National Farmers Union.

I am chairman of the executive committee of the National Farmers Union, as well as president of the Minnesota Farmers Union. Mr. Rohde is president of the Wisconsin Farmers Union and a member of the executive committee.

Mr. Rohde and I both have prepared statements.

Mr. Johnson, our legislative director, is here with us to fill in with any of the technical points that might be requested of us by the sub-

committee. And if I may then, I would like to to present my short statement and then it will followed by a statement by Mr. Rohde.

In our opinion, the income crisis of dairy producers requires action now. To delay until next year would only make things worse and might very well make it more difficult to adopt workable legislation.

We, therefore, wish to commend you, Congressman Johnson and the members of this subcommittee for holding those hearings as a groundwork for making a recommendation on a new dairy program.

The Farmers Union believes that a new dairy program must be nationwide in scope and broad in application. We believe that it must be designed to get at the real income problem.

For these reasons, a bill encompassing both fluid and manufacturing milk is the best starting point for a new dairy program.

It is important that the Members of the Congress bear in mind that the passage of a bill which would deal only with the Federal milk order markets would leave out nearly 90 percent of the Nation's dairy farmers—farmers who produced nearly 60 percent of our total milk supply.

The 186,000 dairy farmers who market their milk under a Federal order are well outnumbered by the 242,000 other commercial dairy farmers whose production goes into manufactured dairy products. Besides these 242,000 dairy producers for whom milk production is the principle source of income, there are a million and a quarter more dairy farmers to whom dairy income is important, even though some other commodities may be of greater value.

These figures should indicate that it would be a mistake to legislate only for the 186,000 producers under the Federal milk orders and to ignore the income problem of a million and a half others.

In my State of Minnesota, we have less than 4,000 dairymen who produce for the milk order markets at the Twin Cities and Twin Ports and we have 81,000 other producers who would not benefit in any direct way from the adoption of a limited bill, such as the so-called class I base plan.

In fact, if the figures were carefully examined, it would be seen that there are only a very few States in which the manufacturing milk producers do not outnumber the fluid milk producers.

A further measure of the importance of income protection on manufacturing milk is the fact that, even in the Federal order markets, an average of about 40 percent of the milk is in excess of fluid needs and must find a use in manufactured dairy products.

Mr. JOHNSON of Wisconsin. Can I interrupt at that point?

Mr. CHRISTIANSON. Yes.

Mr. JOHNSON of Wisconsin. Do you mean that they produce for manufacturing plant use a part of their milk that is class I?

Mr. CHRISTIANSON. Part of it is going into class I and part of it outside of the marketing order areas.

So, only about 30 billion pounds of milk produced in the Nation qualifies for class I pricing—that is about 25 percent of the total of 118 billion pounds being marketed annually. Some 88 billion pounds of milk production, or about 75 percent of the volume, depends principally upon the strength of the manufacturing milk market.

Still another important thing to consider is that, in addition to being many more times numerous than the milkshed producers and accounting for a greater share of the Nation's milk volume, the manu-

facturing milk producers have, over the years, had a tighter cost-price squeeze.

Recent figures reported by USDA economists have shown that over a 13-year period from 1950 through 1962, prices received by manufacturing milk producers have averaged only 8 cents per hundred-weight over the cost of production, while during the same period prices received by producers selling in the milksheds averaged 46 cents over the cost of production. Cost of production in some of the milksheds has averaged a dollar or more per 100 pounds greater than the cost of production in manufacturing milk areas.

We have no objection to the adoption of a class I base plan as part of an overall dairy program, but it is only a minor part and it could not be looked to for any major improvement of the dairy situation.

In its official report on the latest version of the class I base plan, USDA points out that it would do little to reduce production or improve farm income, even if fully operative in all the 83 Federal order markets.

If the class I base plan were in force in every one of the Federal order markets, the best that could be expected, according to the USDA estimates, would be a gain of about \$7 million in dairy income and a reduction of about \$26 million in CCC costs.

However, as now proposed, the voluntary class I base plan would become effective only in those order markets in which producers had given approval in a referendum.

If Congress approved the bill, it might be many months, perhaps a year before hearings, balloting and final orders had been completed.

Since action would have to be initiated by producers themselves, it is possible nothing at all would be done in some areas.

Therefore, approval of the class I base plan alone by Congress might very well prove meaningless—certainly there would not be any appreciable income improvement or surplus reduction for a year's time, perhaps much longer.

However, action cannot wait. According to the USDA "Farm Income Situation," the total cash receipts from dairy marketings in the first quarter of this year were \$1,190 million, compared with \$1,229 million for the first quarter a year earlier.

This is a loss of \$39 million in cash farm receipts from dairying and represents a decline of \$10 million a month after taking into account the slight reduction in volume.

With the feed price index above a year ago and replacement live-stock costs remaining at high levels, this means that the reduction of cash farm receipts also constitutes an equivalent reduction in dairy-men's net income.

We feel it is intolerable to leave milk producers at this low income level and to fail to seek improvements in dairy legislation.

We would not be critical at all of the cost of the dairy program if it were achieving what it should. The existing program is costing near to \$500 billion. It is a good investment, from the standpoint that it is holding dairy income some \$750 to \$800 million above the level which would prevail in the free market.

The point is not that the cost of the present program is excessive in itself—the point is that, with a small expenditure, a much more effective program can be maintained for the benefit of everyone—producers, processors, consumers, and taxpayers.

A program which would provide payments of 50 cents per hundred pounds to manufacturing milk producers would improve farm income by \$200 million a year, yet would cost \$63 million less than the existing program in the 1963-64 marketing year.

By providing this increase in income to farmers through direct payments, fair prices could be maintained for consumers.

The Minnesota Farmers Union takes a particular interest in the dairy industry because most of our member families are dairymen and because of the economic importance of dairying in the State.

Dairy farms are an important asset in their community—a dairy farm represents a large investment in herd and equipment.

The USDA studies of typical farm costs and returns show that in southeastern Minnesota, farmers operating typical dairy-hog farms have an average investment of \$49,960 in their land, buildings, equipment, and livestock.

Dairying tends to be a stable kind of farming because once having made the large investment in his dairying operation, a producer cannot afford to go out of production on a moment's notice.

Likewise, creameries, cheese factories, and other dairy plants are important from the standpoint of the employment they offer in the area.

The upper midwest research study reports that Minnesota dairy products account for a volume of \$560 million a year. Dairy farmers have gross receipts of about \$280 million a year, while manufacturers and handlers account for a value-added of another \$280 million.

From a tax standpoint, dairy farms and dairy plants are also an important part of the tax base in all rural localities.

This statement, of course, will be followed by one by Mr. Rohde and, perhaps, the two might be considered together and tie together as the official position of our organization.

Mr. JOHNSON of Wisconsin. We will be glad to hear from you now and the committee will ask questions later.

Mr. ROHDE. Mr. Chairman and members of the committee, I am Gilbert C. Rohde, a dairy farmer from the Ninth Congressional District of Wisconsin, the district which our chairman represents in Congress. And, also, I am here appearing as a member of the executive committee of the National Farmers Union. I am, also, president of the Wisconsin Farmers Union, representing some 10,000 dairy farmers. I welcome and appreciate this opportunity to express our position in support of H.R. 7261.

On July 10, 2 weeks after Congressman Johnson introduced his forward-looking dairy bill, the board of directors of the Wisconsin Farmers Union unanimously adopted a resolution in support of the measure. Subsequent events this summer point up the wisdom of this endorsement.

On May 14 of this year, we testified before the Senate Agriculture Subcommittee on Agricultural Production and Marketing and Stabilization of Prices in favor of the dairy bill introduced by Senator McCarthy of Minnesota. In light of the growing support around the country for the main provisions in Senator McCarthy's bill, we believe our faith in its realistic objectives is now being justified.

We support these dairy bills though their features are not identical. But they are identical in what counts the most—their main

objective to raise the income of dairy farmers both in and outside of Federal milk marketing order areas.

In the past we have expressed our serious reservations concerning the dairy bill introduced by our Senator Proxmire of Wisconsin because it excludes help to farmers in manufacturing milk areas and offers only limited inducement for producers in Federal milk marketing order areas to participate voluntarily. The main provisions of H.R. 7261 deserve added emphasis:

The bill introduces the principle of direct payments as a support method for dairying outside of Federal order areas. The direct-payment approach has proved to be effective in programs for wool, sugar, and feed grains and has had wide acceptance by farmers. With direct payments, the proposed legislation would raise the income of producers without raising the cost of milk to dairy plants and the retail price to consumers.

It retains the minimum price-support floor of 75 percent of parity as provided in existing law. It must be conceded that continued price stability at 75 percent of parity level is a significant factor to be considered in gaining additional support for the measure among dairy interests.

The bill attempts to deal realistically with pricing problems within the various Federal order areas. The present method of pricing within Federal orders is believed by many to be the principal reason for expanding production beyond the fluid needs. The opportunity for dairymen in an order area to determine by referendum whether or not to inaugurate a program to receive higher prices for needed fluid milk and lower prices for surplus milk seems to us a realistic step.

Congress should approve the recommendations as set forth in H.R. 7261 relating to a program in the Federal order areas. Congressman Johnson's proposal of a 2-year program of direct payment to producers outside of marketing order areas who voluntarily agree not to expand their production beyond that of their base year or a percentage thereof is significantly important to family farm dairymen.

At the outset of this testimony we pointed out that events this summer served to reemphasize the wisdom of our board of directors' decision to support the McCarthy-Johnson approach to new dairy legislation. I say in sincerity that this legislation is the last great hope to bring order to the dairy situation in the Middle West that is fast approaching chaos.

Much of the desperation of the dread 1930's is seething in America's dairyland. Not since the Chicago milk strike and the Farm Holiday Association have we witnessed such open definance of the daily marketing system. It is only natural that economic injustices extended over a period of years should breed discontentment and resentment that could erupt in violence.

Time is running out for many a young farmer in Wisconsin and other dairy States. His dissatisfaction extends beyond his farm enterprise to his processor, Government, farm organization, and yes, even neighbor.

After World War II we trained hundreds of thousands of these young men at Government expense to become more efficient farmers. But we didn't prepare them for the cost-price squeeze that makes a mockery of such terms as "the affluent society."

Farmers Union has always placed its faith in legislation and the democratic processes to obtain economic goals. If these would ever cease to be our means to an end, we would then cease to be a responsible farm organization.

Having said this, I am also constrained to say that we no longer can afford the luxury of holding hearings such as this every summer without some consideration and recognition of the economic attrition that is taking place in the Midwest.

Finally, as a responsible farm organization, we recognize that the public interest will be served best by a dairy program that not only considers the needs of the dairy farmer, but also those of the consumer. Each year our economy is becoming more consumer oriented and as farmers we realize that we must be attuned to this development.

I am sure we are all in agreement that the present dairy program is not doing a satisfactory job—either for the farmer or the consumer. Certainly a program which promises to cut excess production, reduce Government costs, and raise net farm income would be a worthy alternative to what we now have. The McCarthy-Johnson approach offers us the opportunity to adopt such an alternative. It reserves a fair trial.

I believe that my testimony today was representative of hundreds of thousands of dairy farmers and constitutes real grassroots thinking in the country. The bills we are considering are a step in the right direction. Let us take this step before it is too late.

Mr. JOHNSON of Wisconsin. Have you a statement that you wish to make at this time?

Mr. REUBEN JOHNSON. No, I believe not, Mr. Chairman.

Mr. JOHNSON of Wisconsin. Do you have any questions, Mr. McIntire?

Mr. MCINTIRE. First, let me express my appreciation of the statements that have been made. I have just one or two brief questions.

In your statement, Mr. Christianson, you made reference—on page 3 in the third paragraph of your statement—you made reference to 50 cents per hundredweight.

Mr. CHRISTIANSON. Yes.

Mr. MCINTIRE. The Under Secretary yesterday said that it was 20 cents and 40 cents—his reference was to those two figures.

Mr. CHRISTIANSON. In the bill there is no provision spelled out, except that it says payments may be made up to 50 cents. The 20 cents and the 40 cents are not mentioned in the bill at all. But I understand that USDA figured it on that basis in order to arrive at the figures that they thought would be comparable and an incentive to go ahead with the program.

However, the bill specifically says up to 50 cents. Our calculations are made on the basis of the 50-cent payment.

Mr. MCINTIRE. And 50 cents would be the better figure then?

Mr. CHRISTIANSON. Yes.

Mr. MCINTIRE. Rather than the 20 cents and the 40 cents?

Mr. CHRISTIANSON. We believe that the 50 cents would be more inducive to a program that would be truly workable for the manufacturing milk farmers.

Mr. MCINTIRE. Mr. Rohde, on page 3 of your statement, quoting from it, you state, "Not since the Chicago milk strike and the Farm

Holiday Association have we witnessed such open defiance of the dairy marketing system."

Do you care to elaborate on that?

Mr. ROHDE. I will be very happy to, Mr. Congressman.

We have a special set of circumstances that are developing in Wisconsin and in Minnesota where we see open defiance of our present marketing system. We find many of the younger farmers who are promoting the idea of developing a price structure through some kind of agreements that they reach between the farmers and their processing plants. They are making some progress. They are ignoring, in many instances, the many years of efforts that have been put into building a cooperative marketing, processing, and distribution system. And in many instances are weakening the structures by taking their products to another processing plant which says that they are attempting to help them to obtain the prices which they want.

These people are advocating a price of \$5 a hundred for manufacturing milk and \$6.05 for fluid milk and are getting substantial support from many of our younger farmers who are faced with tremendous financial obligations. These young farmers feel that they are not going to be able to continue to operate their family-sized units under the economic system that we have now which provides for 75-percent parity for their production.

It is becoming quite serious in the Midwest, Congressman McIntire, and unless we see some substantial improvements in the general pricing structure I fear that the time is not too far away when we are going to have conditions that existed back there in the thirties.

Mr. MCINTIRE. Which do you consider the more important impact, the level of the price or some other factor? I know that we always look at price as a major aspect of income, and there seems always to be a race going on as between what we can get for the product and what it costs to produce it. And it is believed that the farmer has some influence in the marketplace in getting a higher price.

Mr. ROHDE. This, of course, is the basic problem. It is really difficult, for example, for a farmer out here who sees his operating costs rising each year, who reads in the newspapers that the cost of living has risen again, and then to find that his gross income and his net income are dropping in this kind of a situation. It is very disconcerting, and it is going to have its effect.

If the marketplace, without any help from the Government, is going to provide the income for the farmer, then we have another set of circumstances. But there is no indication that such a system will work. The direction we are headed will also continue to breed this kind of discontent.

If we place all of our reliance on the efficiency factors of production, this kind of a picture is going to continue. And somewhere we have to bring supply in line with demand through some device.

The production pattern that we have experienced in the past is not going to do it. We are merely suggesting that we use the device of Government, with the help and through the wisdom of this committee, to establish the guidelines for farmers to follow in making the basic laws of supply and demand function more equitably for the producers.

Mr. JOHNSON of Wisconsin. Mr. Christianson, you have a statement on page 1 of your statement to the effect: "It is important that

the Members of the Congress bear in mind that the passage of a bill which would deal only with the Federal milk order markets would leave out nearly 90 percent of the Nation's dairy farmers—farmers who produce nearly 60 percent of our total milk supply.”

Is it 90 percent as you have it here, that you claim or is it 60 percent of the total milk supply that goes into manufacturing milk, which is correct?

Mr. CHRISTIANSON. I refer to the farmers who produced nearly 60 percent of our total milk supply—producers of manufacturing milk.

Mr. JOHNSON of Wisconsin. When I first read the statement I thought that you said that 90 percent of the total milk went into manufacturing milk and I wanted to make sure of that. That would be an awful lot of milk.

Mr. CHRISTIANSON. No, it is not that. The point is that to ignore manufacturing milk is to close our eyes to the need of a national dairy program and producers of manufacturing milk.

Mr. JOHNSON of Wisconsin. Do you have statistics on that?

Mr. CHRISTIANSON. Yes.

Mr. JOHNSON of Wisconsin. A lot of that 60 percent of milk is in Federal marketing order areas as well as outside of those areas, is that correct?

Mr. CHRISTIANSON. Sixty percent of our total milk supply, produced by family farms, is milk for manufacturing purposes.

Mr. JOHNSON of Wisconsin. Some is produced and sold in the Federal milk marketing order areas and goes into manufacturing milk?

Mr. CHRISTIANSON. Yes.

Mr. JOHNSON of Wisconsin. Thank you. Any questions, Mr. Olson?

Mr. OLSON. I do not have any questions, Mr. Chairman, but I would like to congratulate the gentlemen on their fine statements, especially the president of the Minnesota Farmers Union. The statements speak well for them and are rather precise in pointing out the problem—in pointing out very adequately the problem. And I am very happy to see the manner in which it has been done. I appreciate your testimony, gentlemen.

Mr. JOHNSON of Wisconsin. Mr. Findley?

Mr. FINDLEY. Mr. Rohde, do you see the direct-payment principal as one that will probably be permanent, or is it just temporary?

Mr. ROHDE. It is hard to project into the future in view of the changes that are occurring in agriculture. I would be hopeful that this device would establish a pattern which would stress the importance of the family farm structure of agriculture. It may be the cheapest investment that we can make to keep rural America strong.

Mr. FINDLEY. Do you see any time in the immediate future when direct payments would not be needed, the way things are going in the dairy industry?

Mr. ROHDE. Here again this would depend to a large extent, I think, upon the extent of participation in the program such as we are suggesting to be developed. If we would get close to 100-percent participation in such a program, so that the supplies would be brought in line with the demand, if we could develop new markets outside of our country and if we could increase domestic consumption of dairy products, generally, I would presume that the level or the general

price structure would rise to a point where it would not be necessary to supplement the income.

Mr. FINDLEY. Mr. Christianson or Mr. Rhode, has the National Farmers Union retreated from its goal of 100 percent of parity for dairy farmers? The bill would provide for only 75 percent of parity as the floor.

Mr. CHRISTIANSON. I would like to say that the Farmers Union's position—the historic position is that of full parity or 100 percent of parity and our position on that is still very firm, but in order that we might move in the direction of attaining this at the moment, we are going along with trying to get the best that is possible toward that direction. And, of course, we are not talking about 75 percent of parity for producers participating in the program since the payment would be in addition.

Mr. FINDLEY. Would the bill be more acceptable if it provided 100 percent of parity floor instead of 75 percent of parity floor?

Mr. CHRISTIANSON. Yes. It certainly would, particularly if we could get 100 percent of parity established through the use of a direct payment device—the difference between what the market will allow here under a support program of 75 percent of parity floor and get the difference in a direct payment to the individual producer.

Mr. FINDLEY. Would you recommend that the committee amend the bill to provide a 100 percent of parity level?

Mr. CHRISTIANSON. We would certainly recommend that this be given consideration and would support it most heartily and strongly.

Mr. FINDLEY. Do you have any estimate as to what the additional cost would be if this were done?

Mr. CHRISTIANSON. We have an estimate. I do not recall it at the present time, but I would be happy to get the figure and to provide it for the record for you.

Mr. FINDLEY. Thank you.

(The information referred to above follows:)

Estimated cost of dairy program with price support payments on 95 percent of the 1962 manufacturing milk base at 100 percent of parity (based on McCarthy, Johnson, and Olson dairy bills)

Total marketings.....	billion pounds..	113.4
Commercial marketings.....	do.....	109.6
Food for peace and social welfare uses.....	do.....	3.8

Costs:

CCC purchases (net) ¹	million..	\$249
Reduction payments ²	do.....	40
Production payments ³	do.....	369

Total net expenditures.....	do.....	658
1963 estimated cost of present program.....	do.....	453

¹ Market price of manufacturing milk supported through purchases at \$3.14.

² Payments of \$2 per hundredweight to producers in Federal orders on 2,000,000,000-pound reduction.

³ Payments on manufacturing milk to producers who stay within 95 percent of 1962 marketing year base at \$1 per hundredweight on 36,900,000,000 pounds.

Mr. JOHNSON of Wisconsin. Mr. Duncan, do you have any questions?

Mr. DUNCAN. No questions.

Mr. JOHNSON of Wisconsin. Mr. Beermann?

Mr. BEERMANN. Mr. Rohde, in your statement, on page 2, you refer to the referendum. Would the referendum vote be on an individual vote basis or a block basis?

Mr. ROHDE. My understanding of section 1 of the bill is that it would provide for amending the Agricultural Act to provide for producers in Federal milk marketing order areas to inaugurate a class I program. This would only be accomplished after the producers in the area had an opportunity to vote whether or not they wanted to employ some supply factors and controls in their order. When two-thirds of the producers are in favor of doing that, then they would incorporate these provisions within their marketing order area.

Mr. BEERMANN. You are in favor of the producers individually voting?

Mr. ROHDE. I am in favor of having the producers express themselves in this manner. Whether the producers themselves determine this on an individual basis or whether they want to vote through their cooperative marketing structure as to this agreement is entirely up to them. I would not argue the point either way.

Mr. BEERMANN. You have really no definite thoughts as to whether it should be block voting or individual voting?

Mr. ROHDE. I listened to the Congressman indicating yesterday that it should be individual voting. However, the practice of many of the cooperative marketing organizations is to employ the method of block voting. And if you get 100 percent participation on the part of the membership to determine this, and if this is the customary way in which they make their decisions, why I think that they should be entitled to continue to use this method.

Mr. BEERMANN. Mr. Christianson, what are your thoughts on whether this should be determined by block voting or individual voting?

Mr. CHRISTIANSON. We have discussed this occasionally in our organization. There has been no determining policy on this matter.

We feel in a cooperative, as Mr. Rohde has already indicated, that if the membership of the cooperative determines that they wish to proceed with block voting, why then we believe that it should be done according to the wishes of that particular group.

Mr. BEERMANN. How would you make this determination—would you mail ballots to each member of the cooperative, to ask whether he wanted to vote individually or by block vote on a class I base plan?

Mr. CHRISTIANSON. I believe that it could be done either way. Again, that should be determined by the membership as to what procedure they would like to use in determining this, but they could either do it by mail vote or in a membership meeting by those who attended the membership meeting.

Mr. BEERMANN. At a membership meeting do you usually have 100 percent attendance?

Mr. CHRISTIANSON. No. There would not be 100 percent attendance, but the membership meeting represents the people who are interested in the operation and if the interested people in the cooperative decide a pattern, I believe that should be satisfactory.

Mr. BEERMANN. Do you feel that a percent of the people of that association should decide what the rest shall do? We have discussed voting occasionally in this committee. Some Members of Congress

would like to have two-thirds of the eligible voters vote in their district in a congressional election, but I appreciate your thoughts on this subject, and how you feel about it.

Mr. CHRISTIANSON. Mr. Congressman, if the members had an opportunity and do not avail themselves of that opportunity, then there is not much that we can do except to accept the wishes of those that are participating.

Mr. BEERMANN. Thank you.

Mr. JOHNSON of Wisconsin. Mr. Belcher, do you have any questions?

Mr. BELCHER. No, sir.

Mr. CHRISTIANSON. Mr. Chairman, I have a statement here adopted by the board of directors of the National Farmers Union in reference to the bill. It is a short statement, and with your permission I would like to have it inserted in the record, please.

Mr. JOHNSON of Wisconsin. If there is no objection it will be placed in the record.

Mr. CHRISTIANSON. Thank you, Mr. Chairman.

Mr. JOHNSON of Wisconsin. That will be placed in the record.

Mr. CHRISTIANSON. Thank you.

(The document referred to follows:)

RESOLUTION BY BOARD OF DIRECTORS OF NATIONAL FARMERS UNION ON
McCARTHY DAIRY AMENDMENT

The board of directors of the National Farmers Union hereby resolves that—

The provisions set forth in the Proxmire dairy bill, S. 1915, class I base plan alone will not provide a solution of the present crisis confronting the dairy industry; however, in order to increase the chances of bringing about much-needed dairy legislation Farmers Union supports the class I base plan in conjunction with the program for dairy farmers in manufacturing milk areas as provided in S. 1961 introduced by Senator Eugene McCarthy, Democrat, of Minnesota.

Farmers Union cannot support the bill introduced by Senator Proxmire as the answer to the need for a national dairy program since it would affect only those producers inside marketing order areas who wish to be included in the plan.

The bill introduced by Senator McCarthy—S. 1961, section I of which is identical to Senator Proxmire's bill—goes further to include the necessary provisions in section 2 which would include those producers outside Federal marketing order areas. Section 2 would include manufacturing milk producers and would offer a support price which would bring about a reduction in the production of milk by offering supply-adjustment incentives.

The surplus reduction payment feature in S. 1961 would overcome a serious shortcoming of the class I base plan. Under this provision dairy farmers in both Federal marketing order areas and manufacturing milk areas would have sufficient incentive to curtail production.

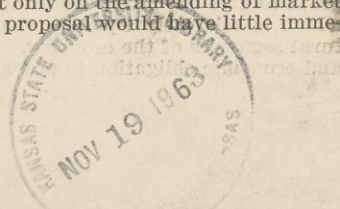
Farmers Union's support of a program for producers of manufacturing milk to work in conjunction with a class I base plan is based on five underlying principles:

(1) Producers of manufacturing milk who receive prices based on a support of \$3.14 are in serious need for a program which will substantially raise their net income.

(2) To deal with surplus milk in market order areas while ignoring surplus production in manufacturing milk areas constitutes a piecemeal approach to the need for supply-adjustment nationally.

(3) A program solely for producers of class I milk in which bases are established discriminates against producers of manufacturing milk.

(4) The class I base plan would go into effect only on the amending of market orders through referendum. Therefore, such a proposal would have little immediate effect on excess production.



(5) Price support payments authorized in section 2 of the McCarthy bill would make possible movement of processed dairy products to the consumer at fair and reasonable prices and is expected to stimulate consumption.

A dairy program which includes both the Proxmire (S. 1915) and McCarthy (S. 1961) provisions would result in reduction of surplus, lower Government cost, and increased net farm income to milk producers.

The board of directors of National Farmers Union does therefore urge the Senate of the United States of America to adopt section 2 of the McCarthy bill (S. 1961) as an amendment to the Proxmire bill (S. 1915) and to give favorable consideration to the proposal.

Mr. FINDLEY. May I ask one further question?

Mr. JOHNSON of Wisconsin. Yes.

Mr. FINDLEY. If this were adopted and became law, could we expect that the National Farmers Union would press for a change in the legislation which would raise the level of the direct payments to the goal of 100 percent of parity?

Mr. CHRISTIANSON. You could expect the National Farmers Union to press for an amendment, even in the adoption of the bill to raise this price level.

Mr. FINDLEY. Thank you.

Mr. JOHNSON of Wisconsin. Thank you.

We will call as our next witness Mr. Harry L. Graham, legislative assistant to the master of the National Grange.

STATEMENT OF HARRY L. GRAHAM, LEGISLATIVE ASSISTANT TO THE MASTER, NATIONAL GRANGE; ACCOMPANIED BY CHESTER W. SMITH, ECONOMIST, MUTUAL FEDERATION OF INDEPENDENT COOPERATIVES, INC., SYRACUSE, N.Y.

Mr. JOHNSON of Wisconsin. Do you have anyone that you would like to have sit with you?

Mr. GRAHAM. I would like to have Mr. Chester W. Smith, economist, of the Mutual Federation of Independent Cooperatives, Inc., of Syracuse, N.Y., to sit with me. He is most familiar with this situation.

Mr. JOHNSON of Wisconsin. Very well, he may do so.

Mr. GRAHAM. Mr. Chairman and members of the committee, I have a rather long and comprehensive statement which I am not going to read in full, if that is agreeable with you.

Mr. JOHNSON of Wisconsin. It will be inserted into the record at the end of your oral statement if there is no objection. You may proceed.

Mr. GRAHAM. I would like to read some sections of it.

We believe that parity income should provide for farmers a return for their labor, management, risk, and investment, in reasonable relation to that return for these factors in other segments of the economy.

And now just a brief statement as to the Grange's policy.

I will now read a paragraph from the National Grange statement of last year which is on page 3 of my statement, in the middle of the page:

If Americans are going to continue to enjoy an economy of abundance of their foodstuffs, then they must pay by one method or another enough for this agricultural production to meet the necessary cost of production and to allow enough profit to give the producers of our agricultural commodities a standard of living which is relatively equal to the standard which is enjoyed by the nonagricultural segments of the economy. We believe that Americans have both the moral and economic obligation to pay an American price for products produced on U.S.

farms. We further believe that this price should come from the consumers of agricultural products and not from the taxpayers.

May I say, in addition to this, that we are convinced that a part of the problem which agriculture faces in general, and the dairy industry in particular, arises from the fact that our costs of production are legislated into being by both tariff and labor legislation that have served to improve and to protect the profits and the wages of industry and labor; that these levels are higher than world levels; and are not very much influenced by world market prices. On the other hand, the levels at which agriculture must sell its products, are heavily influenced by world market prices which are substantially lower than the American price level should be. This is a basic reason for the continuation of the disparity of the cost of production and the return which is received by farmers for that which they place on the market. It is a longtime problem. It has had little relief except during wartime since the end of World War I.

We believe that part of this problem, a big share of the problem is the result of the surpluses which we have accumulated and maintained over a long period of time. The National Grange said last fall that farmers must face squarely and forthrightly the necessity of bringing the supplies of their products under control if they are to be assured of incomes comparable to those received by nonfarmers. They have no right to expect the Government to spend the taxpayers' money to support the prices of farm commodities when supplies are far in excess of market demand and when farmers themselves make no concentrated effort to reduce production.

I will state this general problem as we see it, that is, in terms of milk and the surplus which there is in the general milk production picture. A part of the objection to any legislation that has been repeatedly voiced is that the situation is improving and the supply-demand situation is going to take care of the whole problem before very long. Actually, the production in the Federal milk marketing order areas is up—it is up substantially in all but a very few of the Federal milk marketing order areas, and it is up, particularly, in the areas that were in the deepest trouble, primarily, the New York-New Jersey, Chicago, and Puget Sound milksheds.

We have accumulated a total this year in excess of 4 percent in the Federal milk marketing order areas.

Mr. JOHNSON of Wisconsin. What was that figure?

Mr. GRAHAM. Four percent.

Mr. JOHNSON of Wisconsin. Four percent?

Mr. GRAHAM. Yes, over last year. In July, for instance, this year, the New York-New Jersey milkshed showed an increase of 45,825,000 pounds over the previous year. The consumption of fluid milk increased by 13 million pounds. That is a difference of 32 million pounds that went into the surplus milk usage and eventual Government purchase.

We believe this has had more than one unfavorable result. The supply of milk which was projected for the New Jersey market, for the summer months, called for four of the cooperatives to agree to a suspension of the pricing provisions for class III milk for the 2 months period which meant a decline of about 8 cents per hundred-weight. There was general agreement that there simply was not the

facility to handle this amount of milk in that order at the price that they were going to be required to pay.

This continual depression of prices from this kind of pressure was evidenced in the hearings that were recently held in New York State regarding bulk hauling, and the recommendations that have come out of the Department is that the handlers be allowed to negotiate up to 15 cents per hundredweight for the hauling of bulk milk. This is a compromise upon the old farm point pricing program for bulk handling.

We can go on and on in this kind of a dissertation to show that the pressure on the market is itself from this surplus of milk. And the pressure of the producers upon those who handle this milk is so tremendous that there is a possibility that the Federal Order No. 2 will be knocked out unless the recommendations of the Department can be changed before they are fully implemented.

Mr. McINTIRE. May I ask a question right there?

Mr. GRAHAM. Yes.

Mr. McINTIRE. In relation to this allowance for hauling, is the figure which the Department allows in your opinion unrealistic as a figure?

Mr. GRAHAM. Yes, it is. We do not believe that the figure is justified by any kind of facts that are available at the present time. I will just say that and quit.

Mr. McINTIRE. I was not interested in going into it in depth.

I wanted to know whether or not you thought it was unrealistic.

Thank you.

Mr. GRAHAM. We have heard some substantial objections from New York State and we will probably from the National Grange level. The problem to us come down almost to the blend pricing arrangements in the present areas.

I want to quote to you from Dr. Leland Spencer, professor of marketing at Cornell University, one of the bright young boys who many years ago helped to write the present dairy legislation, the act of 1937 and the act of 1949, probably the most highly respected professor in this field in the Nation. He said:

Under present price blending arrangements the production of surplus milk under Federal orders is, in effect, subsidized. Nearly all the Federal order markets with marketwide pooling have larger reserves that are needed and these contribute to the national surplus. In 1962, for example, surplus milk constituted 46.8 percent of the New York-New Jersey pool.

And I should add here that the New Jersey-New York pool markets 10 percent of the total milk production of the Nation.

The market value of this milk at the class III price, after adjustment for lower return for milk used for making butter and cheese, was about \$3 per hundredweight. But thanks to the higher class I price (\$5.30 per hundredweight for fluid milk) any dairyman who chose to increase his output was assured of receiving the average or uniform price which amounted to \$4.12 per hundredweight. Thus, in effect, a subsidy of more than \$1 per hundredweight (\$4.12 minus \$3) was offered under the New York-New Jersey order for producing additional quantities of surplus milk.

This is a pretty heavy charge, in our estimation, against the present system, and we do not understand how we can continue to worry about problems of surplus, on one hand, and support pricing and purchasing programs that cause it, on the other hand. We must come to grips with the legislation which makes it impossible for a producer in the

Federal order areas to reduce his production of surplus milk which he places on the market at a loss, without at the same time not being able, if he reduces this production, to maintain his share of the class I market. This, in our estimation—and we have talked to many people—is primary, if not the most important single cause for the increase in the production of surplus milk in the Federal milk marketing order areas. There is just no way out. After a farmer gets about so far in this situation, the cost-price squeeze, his economic commitments for the servicing of his debts, which is the most important economic commitment that he has, begin to catch up with him. He cannot increase his net income by eliminating the surplus production which is a loss production. Much of this is only a will-o'-the-whisp for the farmer, because gross income is relatively meaningless when one-half of it is a loss factor.

And he simply cannot adjust his management freely and honestly in this situation. He has one alternative left, that is to continue to produce more and more milk for less and less money until he ends up in bankruptcy as the inevitable result of this. We are seeing in New York State at the present time increasing bankruptcy, not of the small, inefficient farmers that we have been talking about, but of the relatively well capitalized farmers—capitalized in terms of indebtedness. And the sales of the farmers who are going into bankruptcy that I look at every week are the ones who have 40-, 50-, 100-cow herds, and not the 20-cow herd farmers. These farmers are staying in.

It is the very farmers that we should depend on in the future who are having the most difficulty in their ability to survive. This is not determined by his ability to produce. It is determined by his capital reserves. And to make capital reserves the final determination for his ability to borrow for survival seems to be entirely unrealistic and will lead in its final analysis to the establishment of a landed aristocracy and a landed peasantry.

The position of the National Grange is expressed in our testimony in the hearings, as we expressed it here, that we approved in the Senate the Ellender bill and in the House the approach of the chairman of this committee. We believe that something has to be done immediately in order to improve the Federal orders and we believe that the mandatory provisions provided in these bills are the best way of getting it done. However, we are willing to concede that there is not enough support for this approach, either in the Congress or in the country, so we have supported the voluntary approach in the Proxmire bill and as is in the bills which have been presented by Congressman Olson and Congressman Stratton here.

However, we believe that this creates a second problem which would not have been there in the two bills we previously supported. That problem is a much slower adjustment to the market situation than would have been made in the two previous bills.

We do not believe that this adjustment can wait forever or even wait the length of time that might be necessary under the voluntary class I base approach.

We are in agreement with the desirability of a voluntary class I base plan but we want with it incentive reduction payments. We have not arrived at this position arbitrarily or academically. We have arrived at it after a long series of hearings which were held with dairy farmers in New York State and in other States.

However, we do not believe that it should be a permanent program. It should be phased out. This is an item which I have checked repeatedly with the producer groups, because this is one of the points of real discussion. And after talking it over and explaining what was involved and asking them for a show of hands on what they would support, we found that if we had the \$2.50 incentive reduction payment, we would get reasonable participation in the first year; and if we had \$2 the second year, we would get more participation than we would with the \$2.50 the first year; and if we had \$1.50 on the third year, we still would have more participation than under any other situation.

We suggest, therefore, that this incentive reduction be reduced by 50 cents per hundredweight per year until it is phased out. Frankly I am not sure that we need to phase it out more than for the 3-year period. We found no increase in the amount of participation if we continued it at \$1 for the fourth year and 50 cents for the fifth year. But there was a significant difference in terms of participation if it was continued even at a reduced rate for the next 2 years. And in our estimation, the third year would be the most profitable to the whole of Government, if we could get farmers to reduce their production for \$1.50 per hundredweight, instead of paying the \$4.25 per hundredweight it costs the Government to handle this surplus milk.

This seems to us to be a wise investment of money, and on top of that, the farmer gets the money rather than somebody else.

We have not considered in our deliberations prior to the suggestions that have been coming in recently direct payments to the nonregulated milk areas. However, this is still consistent with longtime National Grange policy and we think this is a moral problem at this point, in that the Federal order areas that have enjoyed subsidy for the production of surplus milk have harmed the total economic structure of the nonregulated areas far more than was justified.

We would not agree that this needs to be a permanent program. There are many who believe that the class I base system in itself would improve the price of class III milk or the manufactured milk by at least 50 cents in a year. We are not in agreement with either or those who think there would be this rapid adjustment for the manufactured milk or those who think there would be no adjustment. Somewhere in between lies the answer.

It will come, depending on how rapidly we can get into the class I base structure, and we would rather phase the direct subsidy payments out over a period of about 5 years and/or limit it to no more than 50 cents above the 1963-64 price level, so that if this 50-cent improvement comes as the result of the class I base plan, that we will have a level beyond which this total of subsidy and market price does not go.

I think those are the suggestions we have that are most pertinent for changing this legislation. And in brief, our reasons for supporting it.

(The prepared statement of Harry L. Graham follows:)

STATEMENT OF HARRY L. GRAHAM, LEGISLATIVE ASSISTANT TO THE MASTER,
NATIONAL GRANGE

I am Harry L. Graham, legislative assistant to the master of the National Grange.

The longtime objective of the National Grange, reemphasized repeatedly by State and National Grange conventions, is the obtaining for agricultural producers a parity of income which is not necessarily parity prices. We believe

that parity income should provide for farmers a return for their labor, management, risk, and investment in reasonable relation to that return for these factors in other segments of the economy. We desire for agricultural producers, therefore, not more than their share of the national income in relationship to these factors which should determine income, and we are not going to be satisfied with less than a fair share.

This is the heart of what we call the Grange domestic parity concept.

A major cause for the continued desperate plight of dairy producers, as well as the producers of other agricultural commodities, has been the development of an American pricing system for the products of American labor and industry, which bear no relationship to world prices. The high levels of income of the nonagricultural segments of our economy have been created by legislative action in the form of the protective devices thrown around both labor and industry to minimize competition, either from at home or abroad. We have, therefore, seen a continual increase in the price of labor during a period where there has been an oversupply of labor except during a period of wartime. We have seen as a result of this the steadily increasing price of the machinery and other commodities which farmers consume as a part of their production, despite the fact that comparable machinery and/or equipment could be produced by foreign producers at considerable less cost to the purchaser.

Now, we want it clearly understood that the National Grange has not opposed, and is not now opposing, the protective legislation that has been thrown around American labor and industry. What we are saying is that agriculture cannot continually buy on a market dominated by artificially high American prices and sell on a market dominated or heavily influenced by world market prices that are substantially below American prices. This is a fundamental economic problem that cannot be solved by the abandonment of agricultural markets to the so-called free market which would then reflect world market prices.

Since these American wages and profits are automatically transferred to the farmer-producer in his cost of operation, he cannot maintain economic solvency unless he can sell at least that portion of his production which is consumed on the domestic market for a price which bears a reasonable relationship to his costs of production. At the same time, that part of his production which cannot be consumed on the domestic market should be sold at world market prices which do not need to bear any more relationship to the American or domestic parity pricing than do the world market prices for labor need to bear a relationship to the American price for labor.

It was this concept and understanding of the facts of the economic life of America in the 20th century that led the Grange to develop the two-price approach to many agricultural commodities and especially those commodities which are customarily in surplus supply. We believe that the best interest of our Nation can be served only as we have a continued program of an abundance which means that we must have agricultural production in excess of current market demands. A safe surplus or reserve is necessary—both for the protection of the consumer and for national security. However, surplus production providing this reserve should not be permitted to set the price for the total as it tends to do when the Government owns large stocks of agricultural commodities. When this happens, and it has happened and is happening in the case of manufactured products from milk, producers are actually subsidizing those who use their products.

The fact is that the whole support program with all of its tremendous costs, as in the dairy support program, is not a subsidy to farmers, who get little of this total tax expenditure, but a subsidy to consumers through which major and heavy profits are reaped by those who process and store surplus agricultural products.

If Americans are going to continue to enjoy an economy of abundance of their foodstuffs, then they must pay by one method or another enough for this agricultural production to meet the necessary cost of production and to allow enough profit to give the producers of our agricultural commodities a standard of living which is relatively equal to the standard which is enjoyed by the nonagricultural segments of the economy. We believe that Americans have both the moral and economic obligation to pay an American price for products produced on U.S. farms. We further believe that this price should come from the consumers of agricultural products and not from the taxpayers.

A major problem which is not going to be solved by the passage of the legislation before this committee, and which remains for another Congress to tackle, and we shall probably be urging you to do that in the 2d session of the 88th Con-

gress, is the unrealistic situation in which taxpayers are asked to subsidize total agricultural production and then pay additional subsidy on that portion not consumed through regular private trade channels. The heavy pressure which is being brought to bear on all segments of Congress, whether representing rural or urban areas, to correct this situation means that it must be corrected and intelligently, or the whole support system destroyed.

In the meantime, the current stocks of manufactured milk products held by the Commodity Credit Corporation, although they have shown some decline this year, remain a continual and unnecessary burden upon the American taxpayer. Furthermore, their depressing influence upon the market of fluid milk means that an equal burden is being borne by the American agricultural producers. These were the considerations which caused the National Grange in its 96th annual session at Fort Wayne, Ind., in 1962 to adopt the following policy statement: "Farm production must either be brought into line with demand or Government programs to support the prices of farm products must be terminated. It is wasteful and unsound public policy for the Government to continue to support farm prices by adding to already over-large Government stockpiles. Indeed, production of several farm commodities needs to be reduced below present levels of utilization so that Government-owned stocks can be reduced.

Unless agriculture adopts and implements effective supply control programs for those commodities which are in continuous price difficulties, there is little hope that farm people will be able either to make their most effective contribution to our national welfare or to enjoy the fruits of our highly productive economy on a par with nonfarm people. Demand expansion can offer only a partial solution to the problem. Although such programs as school lunches, direct food distribution to needy people, food stamp plans, and a continuance of the food for peace programs provide markets for farm products and are in the national interest, they must not be regarded as a means of supporting the prices of farm products and cannot be relied upon to cope satisfactorily with the oversupply problem in agriculture.

Farmers must face squarely and forthrightly the necessity of bringing the supplies of their products under control if they are to be assured of incomes comparable to those received by nonfarmers. They have no right to expect Government to spend the taxpayers' money to support the prices of farm commodities when supplies are far in excess of market demand and when farmers themselves make no concentrated effort to reduce production."

Despite a slight improvement in the general production pattern of the Nation, which shows that total milk production is down by 0.8 percent, and that stocks of dairy products held by the CCC have somewhat declined, the fact remains that the areas which created this situation remain in continual trouble and in many of these areas the situation is considerably worse than a year ago.

Let us, therefore, look at some of the specific problems that confront the Nation as a way of understanding the general dairy production picture. The reduction in production has been made possible by a decline in milk production in the areas which are primarily the feed producing areas of the central part of the Nation, that have alternative uses for their feed and have been transferring their productive efforts from milk to meat animals. There has likewise been some reduction in production in the areas that are basically cash crop areas and where milk is produced only as a means of having a monthly income check.

However, the areas that were in deepest trouble which were the Federal milk marketing areas that employ a blend pricing system, have continued to expand their production, and the upward movement of this production has a cumulative total in excess of 4 percent in the Federal marketing order areas. Unfortunately, there has not been a similar increase in the sales of fluid milk to consumers. For instance, in July, the New York-New Jersey milk shed showed an increase of 45,825,000 pounds over July of 1962. The consumption of fluid milk increased only 13 million pounds. In some other markets the rate of increase in production has declined but the increase in production is still in excess of the increased of the fluid-milk demand.

This slight change in the general picture and the slowing down in some markets of the rate of increase of production does not indicate that the situation is being solved, but rather than an impossible situation is simply moving slowly toward becoming static. The factors which have caused this present problem in the Federal milk marketing order areas are still with us because they are inherent in the legislation which set up these market orders in the beginning. At this

point I should like to quote from an article prepared by Dr. Leland Spencer, professor of marketing, New York State College of Agriculture, Cornell University, Ithaca, N.Y. Dr. Spencer is probably the most distinguished professor of agricultural marketing, especially milk marketing, in all the agricultural colleges of the Nation. Indeed, as a young man he had a major voice in the shaping of the legislation which established the milk marketing orders in the beginning. Probably no man in America has been closer to the Federal marketing orders than this distinguished teacher. Concerning the current situation he wrote in an article entitled "Comments on Some Current Legislative Proposals and Marketing Problems Relating to Milk":

"Under present price-blending arrangements the production of surplus milk under Federal orders is, in effect, subsidized. Nearly all Federal order markets with marketwide pooling have larger reserves than are needed and these contribute to the national surplus. In 1962, for example, surplus milk constituted 46.8 percent of the New York-New Jersey pool. The market value of this milk at the class III price, after adjustment for lower return from milk used for making butter and cheese, was about \$3 per hundredweight. But thanks to the higher class I price (\$5.30 per hundredweight for fluid milk) any dairyman who chose to increase his output was assured of receiving the average or uniform price which amounted to \$4.12 per hundredweight. Thus, in effect, a subsidy of more than \$1 per hundredweight (\$4.12 minus \$3) was offered under the New York-New Jersey order for producing additional quantities of surplus milk.

"Under the present system a blended or uniform price is computed and announced by the market administrator, on a marketwide basis in those Federal order markets that have marketwide pooling, on an individual handler basis in those markets for which individual handler pooling is prescribed. (Only 13 out of a total of 83 Federal orders provide for individual handler pooling; the other 70 provide for marketwide pooling.) Each producer is now paid in accordance with the uniform price, and in effect, all producers in a given market bear the same proportionate share of the low-price surplus regardless of whether their individual outputs have increased, decreased, or remained constant over a period of time."

Thus Dr. Spencer points out very briefly the inherent problem of the blend-pricing system. That is, simply the fact that the farmer is unable to eliminate the production of that milk which goes into surplus usage and which in most Federal order areas must be produced and sold at a loss, in order that the producer can maintain his share of the class I or higher use classification market. We know of no other segment of our economy where a producer is forced by Federal legislation to produce and sell at a loss a substantial part of his total output in order to sell at a slight profit the remainder. Dr. Spencer's conclusion concerning this problem is: "It is this uneconomic situation which the proposed two-price base plan is designed to remedy. I believe that his type of two-price base plan is worth trying as a potentially desirable modification of the present system of payment under Federal milk orders. This plan should be optional for each market as the bill provides, subject to adoption to the usual hearing and amendment procedure, except that producers should have an opportunity to vote on this proposal separately. S. 1915 provides for this.

"Legislative authority for use of such base plans should include safeguards against arbitrary exclusion of new producers and the bases or quotas should be freely transferable among producers. S. 1915 provides that new producers shall be assigned bases in substantially the same manner as those who had production records at the onset of the plan. It authorizes the Secretary to provide for bases transfers but does not specify how this shall be done.

"One change that I would suggest in S. 1915 is that the authorization for use of a two-price base plan be limited to orders which provided for marketwide pooling as the New York-New Jersey order and most others do. Individual handler pooling is by nature restricted and orders which provide for such pooling should not include the additional provision for long-term producer bases.

"In my opinion there is need for experience with two-price base plans on a limited scale before they are adopted more widely. Under the permissive legislation now proposed it is probable that relatively few markets would adopt such plans during the next 2 or 3 years. I regard this as a favorable outlook, since there is much to be learned about the administration of such pricing arrange-

ments.¹ No doubt experience will show the need for changing the rules that are adopted in the first instance.

"In several markets such as southeastern Florida, Austin-Waco (Tex.) and central Arizona, two-price base plans are the general type that would be authorized by S. 1915 are being administered by milk producer cooperatives. None of these have been in operation for more than 3 years. All seemed to have checked the rising trend of milk production in their respective areas, even though they are not applicable to nonmember producers.

"Cooperatively administered base plans must be regarded, however, as a stop-gap measure rather than as a long-term solution to the problem. This is so because cooperatively controlled bases tend to reduce the share of total market supply delivered by member producers and thereby to weaken the influence of the cooperative from the standpoint of bargaining."

I should note at this point in connection with Dr. Spencer's recommendation that the two-price base plans not be made available to the individual handler pools because of the restrictions which they have at present time, that my contact with the producers in Delaware who operate under individual handler pools, indicate that they would prefer to be exempt from the provisions of this bill.

However, last spring this committee had the privilege of having the testimony of the American Farm Bureau Federation presented by Mr. Percy Hardiman, president of the Wisconsin Farm Bureau Federation of Hartford, Wis. Under cross-examination before this committee and before the Senate committee, Mr. Hardiman testified that he sold his milk in a Federal milk order having an individual handling pool and that they have a class I base. He also testified that their utilization rate runs from 78 to 83 percent.

I can't help wondering what Mr. Hardiman's testimony would be if he should be asked whether his own market order should be allowed to continue under the double protection of a class I base and an individual handler pool.

In anticipation of some of the criticism which may be directed by members of this committee and other interested parties, I would like to continue to quote Dr. Spencer on this matter of criticisms of the plan.

"The two-price plan idea has been criticized on several grounds. Many critics believe it would interfere with the producer's freedom to manage his dairy enterprise and that it would be come a new form of regimentation. It does not seem that this would be true, however, under the provisions of S. 1915, which I interpret to insure the following:

"(1) Optional adoption of the two-price base plan in any Federal order market as a separate proposal, through hearing and amendment procedure, and approval by a two-third favorable vote of producers.

"(2) Freely transferable bases, subject only to regulations deemed necessary to prevent abuses.

"(3) No restriction on the total quantity of milk to be delivered by any producer in excess of base, for which a normal surplus value would be paid.

"(4) Reasonable opportunity for new producers to enter the market.

"As I see it, a properly designed and administered two-price base plan would tend to give the dairy farmer greater rather than less opportunity to exercise his initiative and management talents successfully. It might well facilitate rather than interfere with the adjustment of dairy farm enterprise toward optimum size. This has, in fact, been the experience under the cooperatively administered base plan in southeastern Florida, where there has been a very active market in base transfers. Marketable producer bases would facilitate the retirement of marginal producers.

"It is true that the bases assigned to producers are likely to have substantial market value. Even now, part of the value of a dairy farm is due to the market with which it is associated. With freely transferable bases, part of the capital owned by the dairy farmer would be in the form of base value and somewhat less in the form of real estate. Base value as an intangible asset of a market milk producer would be comparable to the goodwill value of a balance sheet of a milk dealer or other business enterprise which has an established outlet for its product or services.

¹ Base-excess pricing plans have been used widely as a means of bringing about desirable seasonable adjustments of milk production. The two-price base plans now proposed differ from the seasonal excess plans mainly in that the producer bases would be assigned permanently or for relatively long periods, whereas the bases for seasonal adjustment are determined anew each year. Permanent or long-term bases will involve additional and difficult problems of administration.

"The market value of bases will depend upon the specific terms of the plan particularly as to how much milk in excess of class I is included in the base, the amount of spread between class I price and surplus value, and the provisions for assignment of base to new producers. In my opinion the matter should be so handled that the market value of bases is held to a moderate level with the result that the total amount of capital required for dairy enterprise of a given size will not be much greater than at the present."

In the series of meetings which I held in New York last winter and early spring, and in discussion with producers and other marketing order areas during the summer, this issue and problem had been freely discussed and at some length. From discussions which I have had with leaders of dairy cooperatives and other farm groups that have faced this same problem apparently this is a common problem of some concern to all producers.

On one hand there is a general fear of the extreme centralization of production in the hands of a few people and the prospect of speculation and unwarranted price rise in the cost of bases if the transfers were without any restrictions. On the other hand, there is the rightful concern of those interested in a healthy agriculture about the possibility of inefficiently sized operations being frozen at their present size, if the transfers are not negotiable.

As in many instances, this seems to be one of those situations where the answer is not "either or" but "both and." The suggestions for handling this problem which evolved from the discussion of these many groups and which was presented after it became fairly definite to the remaining groups and which found general acceptance was this:

(1) Make bases freely transferable without the land as long as they were to use it to combine inefficiently sized bases into an efficiently sized unit or one which we could call a family farm unit.

(2) Bases that are large enough to provide for the maximum use of the labor and capital available for a family farmer, should be transferred only with the land.

We used as our definition of a family farm: An efficiently sized productive unit where the majority of the labor and capital is furnished by the owner-operator and his family.

One other farm organization has defined it in terms of pounds of production, but a survey of family-size farms where the owner-operator thinks they are large enough for his purposes in the Northeast, indicates as wide variance of views as there is a variance in the family. In general it would have to be at least 400,000 pounds annual production although there are family farms by the prior definition which exceed three-quarters of a million pounds of annual production. Making this restriction on the basis of definition, instead of pounds, would have the advantage of allowing for some flexibility and the different needs and capacities and resources of the different owner-operator farmers and their families.

In order to reduce the discretionary power which the legislation places in the Department of Agriculture and its administrative head, we would suggest **that these reservations be made a matter of law by amending the proposed legislation or at least an understanding of the committee in its report to the House of Representatives.**

If the mandatory features of the Ellender bill and of the Johnson bill, House Resolution 7261, were possible to enact into legislation, we believe that the necessary adjustments would be made much more rapidly than they can under the voluntary approach of this legislation. However, we do not believe that it is the mood of either Congress or the country to adopt the mandatory provisions of that legislation. The Senate Committee on Agriculture and Forestry has already rejected them and reported out of the committee the Proxmire bill. This Proxmire bill goes about as far as anyone can go to make this a voluntary program within the framework of freedom and under law. The proponents of this legislation both within and without the administration have given about as much ground as it is possible to give at this point.

We are in agreement that this is a more mature judgment and that the short-term advantage of the other legislation is more than offset by the long-term potential of the proposed legislation. Again I am pleased to say that we are in agreement with Dr. Leland Spencer whose conclusions concerning this legislation are as follows:

"I prefer to look upon price base plans under Federal milk order as a means of longrun improvement of our milk pricing system. It would, I believe, be a mistake to attempt to use such a plan for the purpose of rolling back pro-

duction substantially from the level already attained. Farmers are certain to resent and to resist such efforts because so much of their costs are fixed and cannot be reduced when output is curtailed. Enforcement problems probably would become very serious if substantial rollbacks were attempted.

"On the other hand, price base plans would be a useful device for bringing about better adjustment between milk supplies and fluid sales in the city milksheds as time goes on. To the extent that they are effective in this way, price base plans will benefit not only the producers in markets where they are used, but also the producers of milk for other markets and for manufacturing, consumers of fluid milk, and the taxpayers who bear the losses on dairy surpluses disposed of under the national price-support program.

"Even though the immediate effects of the proposed legislation are likely to be quite limited, however, potential longrun benefits justify its enactment as soon as possible."

I would add to that the statement that if there were no problems of surpluses and pricing in the Federal order, the fundamental weakness of the blend-pricing system already demonstrated in many Federal milk market orders, makes it necessary that the quarter-century-old legislation which has never been amended in this regard, should be so amended at the present time. The forcing of a producer to produce and sell a substantial part of his production at a loss in order to sell the remainder at a profit, is in our opinion, an economic expense to the Government, and an unwarranted intrusion upon the private and individual freedom of the American dairy producer.

The hard fact remains that the enactment of this legislation on a voluntary basis leaves the present problem of surpluses, depressed prices, and unwarranted and unnecessary Government expenditures, still with us. We do not believe that the twin problems of depressed farm income and continued high Government costs can be disregarded by this Congress, nor do we believe that the majority of American farmers or American people would want you to disregard these important problems.

We testified in the Senate in support of the Ellender bill approach and as I have indicated, our preference is still for the approach which Congressman Johnson has also made in his proposed legislation. The general support for this legislation being on a voluntary basis without any mandatory provisions has caused us to change our testimony but it creates a new problem which we now must come to grips with.

If it is to effectively work in a reasonably short period of time, this proposed legislation for voluntary class I-base surplus program should now be implemented by additional legislation. This is in the interest both of a more rapid production adjustment by farmers and the cutting of Government costs as quickly as possible. The legislative objective should be the elimination of Government stocks of manufactured milk products as quickly as possible. We believe that the proper place to get the Government out of agriculture as some of our contemporaries contend they want to do, is to take it out of the business of being the chief and most of the time the only purchaser of surplus agricultural products. This cannot happen until the supplies offered by the producer are brought into a reasonable relationship with the demand.

This does not say that we do not believe that the Government has no function in storing surplus food products. Certainly the national welfare demands that there be an adequate food reserve, either in the hands of the processors of these foods which are represented by the manufactured products from milk, or there should be a supply on hand as a result of Government purchase programs. However, we do not believe that these functions of price support and national food reserves should be intermingled and confused. A suggestion by the Farm Journal early this year that we have a national commission appointed to evaluate the reserve needs and to make plans for maintaining them, seems to us to have considerable merit.

We believe that an incentive reduction program basically as outlined in the three pieces of legislation before this committee today is necessary and that it is a wise investment of taxpayers money. It is necessary because it would speed the adjustment of supplies to market demand by making it economically possible for those who have a fixed commitment primarily for the service of indebtedness already incurred to continue to meet their capital requirements and, at the same time, reduce their marketing of surplus milk products and, therefore, bring a more stable market which could be self-sustaining.

As long as the Government is in the business of buying surplus dairy products, and since this costs the taxpayers \$4.50 per hundredweight for the manufac-

tured equivalent of each hundred pounds of fluid milk before the Government has finished purchasing, processing, storing, and eventually disposing of this milk, the saving of \$2 per hundredweight by the payment of a \$2.50 incentive reduction payment seems to be good business. This has the added advantage of putting all this money which comes from the taxpayer into the hands of the agricultural producers, instead of letting a substantial portion of it be absorbed by the nonagricultural segments of our economy and charged to the farm program. The Department of Agriculture economists estimate that this would be a saving of the difference between \$511 million for the 1962-63 marketing year, to \$296 million for the 1964-65 marketing year, or \$215 million.

We would not be honest with the many people that we have talked to about this proposal if we did not submit to you our recommendation as to how this should be carried out. First of all, we believe that this is not something that can be accomplished in 1 year. Therefore, we would oppose the prohibition to the use of this means of market adjustment after April 1, 1965.

We propose instead that this incentive reduction payment be phased out by paying \$2.50 the first year, \$2 the second year, \$1.50 the third year, \$1 the fourth, and 50 cents the fifth. This, in our opinion, should be written into the legislation so there would not be any discussion about the continuation of the payment program upon the expiration of the 1964-65 marketing year, as is apt to be done if it is left as it is at the present time. This has the added advantage of giving the farmer fair warning that the payment program is going to be terminated and under what conditions it will be terminated. It would also make it advantageous to those farmers who are going to reduce their production to do so as early in the phasing out period as possible. By a combination of the two-price system and the phasing out of the incentive reduction payments we believe that within a period of 5 years we would be able to eliminate the subsidization of the dairy industry by restoring more satisfactory conditions in the market and by creating a stable, permanent, and dependable program for the producers.

Since, in our opinion, the existing Federal legislation has been partially responsible for the condition which has come to exist in the Federal marketing order areas, we do not believe it unreasonable to expect Federal legislation to help the producers out of the situation that has been created. We fully recognize that this Congress was not responsible for the legislative action in 1937 and 1939. However, we do believe the continuing responsibility of succeeding Congresses for the acts of the previous Congress if they have not changed that legislation, places a moral burden upon the 88th Congress to try to correct the situation that was unknowingly created by the acts of the Congress in 1937 and 1939.

It has been charged and properly so, that this kind of legislation brings no immediate benefit to the hard-pressed producers who market their milk entirely for manufactured purposes. While we believe that the long-term effects of the passage of a class I base program, and the incentive reduction program, would materially benefit the manufactured milk market by the elimination of competitive milk from the class I areas, the critical situation facing the producers of milk in these nonregulated areas requires that some consideration be given to their plight. This again becomes a moral responsibility since it is the subsidization of the production of surplus fluid milk which results from the blend-pricing system, that has helped to destroy a stable market for those who produce for the manufactured milk market only.

The incentive reduction program would not be applicable to the manufactured milk marketing areas because this would certainly mean not only a loss of gross income, but a loss of net income, for these producers. This is the opposite of what would happen in Federal orders where the reduction in gross income would be an improvement in the net income.

Therefore, we will support, and are supporting, the direct payment program which is proposed in the Johnson and Olson bill. We are doing this, however, with reservations about the wisdom of making this a permanent program as it might be without specific restrictions on both the time and the amount of money that could be thus used.

We are, therefore, recommending that the total amount of money to be received for milk by the farmer from his marketing and Government payments should not exceed the 1963-64 level by more than 50 cents. The second proposal is that this program is limited to the same 5-year period that we have suggested for the incentive reduction programs in the Federal order areas.

We are of the opinion that those who expect the passage of a class I base program to result in an increase of 50 cents in the price of milk for manufactured purposes in the year following its implementation, and those who believe that it would do nothing for the price of milk in the manufactured milk areas to be equally in error. We believe that the price of milk for manufactured purposes would be raised by the amount represented by the 50-cent payment. The question is, how long would it take. We believe the amendments which we have suggested would cover the situation adequately and would eliminate the necessity for additional legislation if the price rise was not as rapid as some of the more enthusiastic proponents of the class I base system would have us believe.

The inclusion of this provision will, in our opinion, right a long-standing wrong and contribute materially to the acceptance of the legislation by producers in all areas of the country.

One of the things that has concerned the National Grange during this discussion on dairy legislation, and which we have expressed freely to our many Grange members in the Northeast, and to our friends of members in the Midwest is the long-standing friction between these two most significant milk producing areas in the United States. We believe both areas have been the victims of propaganda which has been aimed at them largely by the processors of fluid milk. In order to keep from paying the kind of price to producers that they should pay in the Northeast, the boogeyman of midwestern milk is always held up before the northeastern producers. In order to keep from paying the producers of milk in the manufactured areas a price which is reasonable and just, they have held before them the illusion of a profitable market in the Northeast.

We have heard of instances where one large national dairy organization claimed that it closed plants in the Northeast because they could buy their manufacturing milk cheaper in Wisconsin and have gone into Wisconsin and closed plants there on a pretext that they could buy their manufacturing milk cheaper in New York. This is the old business of playing both ends against the middle and market manipulation.

Indeed the situation is so critical in this key market order that two long-time and competent observers of the order believe that the Federal order No. 2 cannot survive more than another year, unless remedial action that is outlined and proposed in this legislation is enacted into law. I concur completely with their judgment.

Gentlemen let me say to you that the problem that we are facing here today is the most basic problem facing American agriculture and the Congress today as it tries to come to grips with the problems facing agriculture. The producers of fluid milk account for 15 percent of the total farm income in the United States. In eight States the return from milk is first among all agricultural products. In 10 States it is second. In New York State it is, combined with the processing and distribution of dairy products, the largest single industry in that highly industrialized State. Permitting a situation to continue in which producers of dairy products receive only about 75 percent of parity for all of this production, would be foolhardy, to say the least. This is the kind of Russian roulette which we must not play with such a vital part of the national economy.

We can, I believe, by the enactment and implementation of the legislation being proposed before you today, bring the supply of milk into a reasonable relationship with the demands of the market, and, therefore, let the market again begin to function as it should in the pricing and distribution of dairy products. We believe that this will mean an improvement in farm income. We believe that the increased purchasing power available for the dairy farmers of this Nation would be the greatest stimulant possible to the lagging American economy. One of the major causes for this lag in our gross national product, is that our dairy farmers, as well as most other agricultural producers, have too long lived off of their inventories, and have been unable to replace wornout machinery or to purchase needed additional machinery, and to repair the ravages wrought and the depreciation accumulated by the lack of adequate care to the buildings on the American farm homestead.

To hold that the enactment of no legislation is better than the enactment of this legislation as some of the critics of the plan have been doing, displays only a callous disregard for the welfare of the American family farmer and those who depend upon him, for the welfare of our total American economy, or the unnecessary and unwarranted expenditure of the taxpayers' money, and for the ultimate welfare of the consumers of American dairy products.

The long-term association of the Grange with the Congress of the United States has convinced us over and over again of the real concern of the

elected representatives of the people of the United States for these very factors which I have been talking about. We, therefore, do not insult you by asking that you give favorable consideration to this kind of legislation. We simply say to you that we believe that you will objectively consider it and that we have implicit faith in your good judgment and integrity.

We believe that this problem is so great and its ramifications so far reaching that it cannot be solved on a sectional basis, whereby we pass legislation to benefit one group of producers without passing legislation to equally benefit another group of producers. For the first time, to my knowledge, legislation has been proposed that brings all segments of the dairy industry into somewhere near proper balance. This is a highly desirable goal.

For most of the time in its 97 years of existence, the National Grange has remained nonpartisan in politics. We felt that was wise when we represented a majority of the voters. We believe that it is imperative since agriculture represents a decreasing minority. Therefore, we urge you all—both majority and minority members—of this committee to join with the National Grange in what we believe to be a nonpartisan approach to this tremendously important national problem.

Mr. JOHNSON of Wisconsin. I note that you have sitting with you Mr. Chester W. Smith, who has presented a paper, which, without objection, will be made a part of the record at this point.

(The prepared statement of Chester W. Smith follows:)

STATEMENT OF CHESTER W. SMITH, ECONOMIST, MUTUAL FEDERATION OF
INDEPENDENT COOPERATIVES, INC., SYRACUSE, N.Y.

Representing about 7,000 dairy farmers, in 56 local cooperatives in New York State and Pennsylvania under the New York-New Jersey Federal order, Mutual Federation strongly favors the class I base plan, or two-price plan. Our organization has been extremely active for several years, along with other dairy cooperatives throughout the country, in developing this type of legislation. It would help solve our major problem of surplus milk production which is a millstone around the neck of the entire dairy industry.

The principal advantage of a base plan is the freedom it would give dairy farmers to gear their production voluntarily to normal fluid milk demands in their local market. This would break the current vicious circle of the single blended price feature of milk orders. The single blended price forces all producers to engage in an uneconomic production race in order to keep on a par with each other. The result is an increase in surplus milk production which lowers blended prices. Everybody loses. A two-price plan will enable individual dairymen to produce for normal market needs without being injured by the surplus produced by other producers.

The two-price plan bills now pending contain adequate safeguards to prevent insulation of producers in any one market from normal competition of milk supplies in other parts of the country. The Secretary of Agriculture would be required to establish order provisions, based on public hearings, to carry out his responsibility under the law to make sure that fair, interregional competition is maintained. For this reason the manufacturing milk production areas of the country need not fear that these plans would operate to exclude them from a fair opportunity to compete for market outlets in other parts of the country. On the contrary, the surplus reducing effect of local two-price plans under milk orders would indirectly benefit manufacturing milk areas.

A research report just released by USDA¹ shows that the cost of increasing milk production in 1962 was \$4.35 per hundredweight in the central Northeast, \$3.25 on eastern Wisconsin grade A dairy farms and \$3.19 on Wisconsin grade B dairy farms. The marginal cost is higher than the surplus class price of about \$3 in all areas (and very substantially higher in the Northeast). For this reason two-price plans with excess milk priced no lower than current surplus class prices would discourage production because the cost of producing excess milk would exceed available returns.

Another advantage of voluntary two-price plans on a local market basis is desirable flexibility. Dairymen supplying a given market could adopt this plan

¹ "Implications of Cost and Price Relationships on Typical Dairy Farms," by David Cummins, Dairy Situation, Economic Research Service, USDA, August 1963.

or not adopt the plan, as they saw fit. Each market would have the opportunity to fit the plan to the market's degree of surplus (a wide range now prevails among markets). In view of this feature of the proposed legislation, it seems unfair and unjust for dairy organizations or cooperatives in certain markets, or general national farm organizations, for that matter, to oppose this type of enabling legislation. If such opposition prevails it would deny producers in any market from having the opportunity to even vote on what many of them believe to be an equitable solution to their burdensome surplus problems.

The two-price plan is not regarded as a temporary or emergency stopgap solution to the present large total national dairy surplus. It would be a permanent improvement in the Agricultural Marketing Agreement Act of 1937. Experience in recent years with mounting surpluses indicates that two-price plans can be expected to cure the major defect noted above which threatens to discredit the Federal milk order program. Such discredit would be tragic in view of the fact that milk orders for the most part have been one of the most successful of all Federal farm programs.

In regard to pending bills providing for incentive payments to encourage reduced surplus on a national basis, the Mutual Federation has no objection to such a program if kept on a basis of voluntary sign-up by individual producers and the bill does not lower the minimum of 75 percent of parity dairy support level in the Agricultural Act of 1949.

Of the three bills pending (H.R. 7120, Olson; H.R. 7261, Johnson; or H.R. 8357, Stratton), we prefer the Stratton bill. Its two-price plan title is practically the same as the Proxmire bill (S. 1915) which contains the maximum degree of voluntary application, as well as clarity of wording, and administrative provisions which would minimize opportunities to evade the intended effect of the plan. This latter feature of the two-price plan part of the Stratton bill is its principal advantage over the Olson bill.

The Johnson bill contains two features not in the Stratton or Olson bills which we feel are unnecessary. These are (1) the provision for discounting the return to dairymen on excess milk below the lowest class price in the order, (sec. H(ii)3), and (2) the specification that the Secretary of Agriculture shall hold a hearing on any order whenever "he has reason to believe" that an unnecessary surplus exists, coupled with a mandate to hold a further hearing to consider reducing the class I price if a base plan is voted down in a referendum (sec. H(vii)). The first of these features is not needed on the basis of USDA research findings noted above. The second feature is unnecessary because the act now and always has contained basic authority for the Secretary to call hearings whenever "he has reason to believe" that amendment of any provision of an order is needed. (Sec. 608c (1) and (3).)

Regarding the incentive payment features of the three bills, the Stratton bill contains desirable safeguard against evasion not present in the other two bills (last sentence of sec. 202). It also provides a desirable limit beyond which the Secretary cannot go (25 percent) in inducing reduced production. It also avoids an element of confusion contained in the other two bills by providing only one basis of payment rather than a rate for one type of dairyman on what he does produce and a rate for another type of dairyman on what he doesn't produce.

If any incentive payment type of law is to be enacted, we favor the feature of all three bills which provides for voluntary sign-up by individual dairymen rather than a more rigid, mandatory, or restrictive type of program.

In conclusion, the two-price plan legislation is needed to enable some Federal order markets to get their milk supplies in balance with demand. No dairy legislation this year may leave the Secretary with no alternative but to reduce class I prices in many markets. This is not justified on the basis of the present low net income level of dairymen, particularly in the Northeast. Such action would encourage radical action by some dairy farmers that could easily lead to physical strife and violence. The need for legislative action is now; 1964 may be too late. Please give us the two-price plan legislation this year, so we can at least have a chance to prove to you and the Nation next year how it will help reduce dairy surpluses, improve dairy income, and save taxpayers millions of dollars in the dairy-support program.

Mr. JOHNSON of Wisconsin. Mr. Graham, you mentioned the phasing out of the \$2.50 price. What would your opinion be if the class I legislation was put in for a limited period of 2 or 3 years, to see

how it worked; then to come back to the Congress to see if the Federal milk marketing order areas went ahead and used it?

Mr. GRAHAM. I would not have any objection to that, for this reason:

One is that the class I base system is not new; it has been used in some 39 State orders. Some of them for as long as 13 years.

The testimony that came from these areas was printed in Hoard's Dairyman, January 10, 1963, and I would be glad to submit that as a part of the record, if you would like, and that indicates almost unanimous approval of this way of approaching the problem.

Over in the Senate, for instance, when I talked to Senator Talmadge about this legislation, he said, "This is what we are in favor of. We have had it for many years in Georgia."

And anybody who looks at the record knows that they have a very strong market in Georgia. The fact of the matter is that they say to us over there, "We do not care what kind of a program you boys get for the Federal milk marketing order areas. Just do not be touching our State orders that are working the way they are." And you can well appreciate that position.

There is some experience in the Federal orders now. There are three Federal orders that are using this system, but they have used it less than 3 years. I do not know whether 3 years is enough time, Mr. Chairman, to get a real evaluation of this, but I think that the Congress will be under obligation to reevaluate it probably every year, anyway, in the light of what is happening.

I would prefer that you would do it that way, instead of putting a time limit on it. That would require additional legislation if it is working. You could well legislate it out if it is not working.

(The document, entitled "Hoard's Dairyman Roundtable," may be found in the files of the committee.)

Mr. McINTIRE. In the framework of the established Federal milk market orders, it would be possible, if the law were amended permitting a referendum on this particular amendment?

Mr. GRAHAM. Right.

Mr. McINTIRE. Presumably this could be done by the producers in the area in subsequent referendums; could it not?

Mr. GRAHAM. I would assume so, but I do not think that the proposed legislation is very specific, Mr. McIntire. Perhaps it should be. The proposed legislation does provide that this can be voted on without affecting the order.

Now, it might be well to provide that it could be voted out without affecting the other, too.

Mr. JOHNSON of Wisconsin. You did not get the import of my previous question, I believe.

Mr. GRAHAM. Maybe I did not.

Mr. JOHNSON of Wisconsin. The way this legislation is drawn, it is permanent legislation for the class I; is that correct?

Mr. GRAHAM. Yes.

Mr. JOHNSON of Wisconsin. My idea was to try it for 2 or 3 years and see how much the Federal milk marketing order areas are using it. It is a voluntary program. If they do not want to go ahead with it, they do not have to do so, and then they could come back to Congress after 2 or 3 years and ask for reenactment of the legislation, the same

as the States have legislation for manufacturing milk areas. That is all I had in mind.

Mr. GRAHAM. I would have no objection to that at all. I think that Mr. Smith has some comments to make.

Mr. SMITH. There is one phase of that in a market that really wants to put the plan in, the producers in that market need assurance that if they adopt it, since it is not a subsidy program—it is not a payment program—it is a permanent rearrangement of the price structure and presumably they are sincere in their desire to want it—they have to have some assurance, however, that it will not be in some area jerked away from the producer after 2 or 3 years. Even if you put a terminal date on the legislation—there should be some assurance to those markets that might have adopted this, that they can continue to keep the program; otherwise they will be discouraged from even starting.

Mr. JOHNSON of Wisconsin. Any questions, Mr. Beermann?

Mr. BEERMANN. Yes.

Mr. Graham, it would be difficult for anyone to quarrel with you as to your statement on page 3. I think it is a very fine statement and your followup on page 4, where you state:

Unless agriculture adopts and implements effective supply control programs for those commodities which are in continuous price difficulties, there is little hope that farm people will be able either to make their most effective contribution to our national welfare or to enjoy the fruits of our highly productive economy on a par with nonfarm people.

Are you still for this type of legislation, then—is it more satisfactory on the basis of a Federal law?

Mr. GRAHAM. Yes, with one exception: I think that it is the best that we can get now. I think there is a fundamental mistake, however, in our support laws which sometime is going to need to be rectified and that is supporting at any level all that is produced, regardless of the market needs. This in itself helps to defeat the type of thing which we are talking about, but as far as that goes, I think this is a correct way of doing it, and we probably will be talking to you about this other approach next year.

Obviously this is not the time to do that. Maybe it is—I do not know.

Mr. BEERMANN. My question is that once you establish a program like this, how do you phase it out—how do you get the Government out of it?

Mr. GRAHAM. You mean the payment program or the class I base plan, the payment program, is that what you mean?

Mr. BEERMANN. Yes.

Mr. GRAHAM. I would rather write it into law. I would make it a part of the legislation, so that the farmers as they look at it can say, "This year I will receive so much, next year so much, next year so much," so that he can accurately judge how this is going to operate. This will not be on the basis of a possibility of renewal at a different level. Then I think this gives him a fighting chance to manage his production in anticipation of what the program is going to be over a period of 2 years.

If the class I base program does not improve his situation enough to do that, then probably the legislation is not adequate anyway.

Mr. BEERMANN. On page 11 of your statement, about the middle of the page you have one sentence:

Marketable producer bases would facilitate the retirement of marginal producers.

Then at the top of page 13, No. 1, you state:

Make bases freely transferable without the land as long as they were to use it to combine inefficiently sized bases into efficiently sized units or one which we could call a family farm unit.

And No. 2:

Bases that are large enough to provide for the maximum use of the labor and capital available for a family farmer should be transferred only with the land.

Who makes the decision on No. 1, to establish the farm units, and also No. 2?

Mr. GRAHAM. May I say that since you pointed to the two statements, the first one is from Dr. Spencer and the second one is our position. This is a point where there is probably more discussion than on any other single factor about the class I base program. This is the one that comes up repeatedly and it is the stickler.

Frankly, I think the legislation, as it is proposed, is pretty vague at that point. It is a little hard to determine whether or not the decision on establishing a basis for transferability would be subject to referendum, and through the regular procedures of amending the orders. I think that is one of the things that ought to be cleared up, so this is not left vague.

I think it is a legitimate point of objection on the part of some people who say that this is giving unnecessary power to the Secretary of Agriculture and, of course, that means to the Department of Agriculture. We are inclined to agree with that objection at this point. Adopting a general type of guideline is what I think Congress ought to do, not to try to spell it out for every specific point.

I make the point later on that the size of production is not a valid determination, because the 300,000 pound farm apparently, as exists in Wisconsin and Minnesota, is somewhere near average production size, whereas it is over 400,000 pounds in New York.

So the pound determination becomes a little difficult.

Then, having set up the guidelines, the regular hearing and amendment processes, where the people who are represented are there and who are directly affected, is the proper way of really spelling this out for the orders themselves, with the restrictions that we have been talking about.

Mr. BEERMANN. And this would be left, maybe, to the people off the farm, rather than on the farm?

Mr. GRAHAM. Yes, off of the marginal farms. And it might be off of the others, also. This has been true in the areas that have already used this on a class I base. These are the State market orders, primarily, where we have a good deal of experience with them. There does not seem to be much question about that one.

In the first place, this is one of the objections to it. That is both a problem and a strong point. That is, that the man who has a base to sell has an equity that he can cash in on. The marginal producer does not have many equities that he can cash in and he is the

one that most needs to cash them in. That is one of the items, it seems to me, to be in this.

Mr. BEERMANN. I notice that you speak on the subject of the referendum. Do you want the individual producer to vote individually, or do you wish to have a bloc vote?

Mr. GRAHAM. My personal preference is individually. The long-standing Grange program has been on bloc voting; I would prefer to let that be determined within the market orders by the cooperatives that represent these people.

In almost any referendum in New York—the individual cooperatives—they can elect the voting method. You see, under present law, whether they bloc vote or whether they do not—they submit this to a referendum of their membership. There is a time limit under which they have to do this, so that the ballots can be distributed, but this can be done at the present time and it is an option that is used often enough for us to know that it is usable and would be used in many circumstances.

I think most any cooperative would be almost dutybound to take a pretty good survey, even in terms of bloc voting. There are perfectly valid reasons for bloc voting in the market orders. I do not know that we want to suggest a change in the long-established market order procedures in terms of voting.

Mr. BEERMANN. Thank you. That is all.

Mr. JOHNSON of Wisconsin. Are there any further questions?

Mr. McINTIRE. Mr. Graham, in connection with your suggestion that the law be written providing for an additional period and direct payments as part of the framework of that transitional period, what particular confidence do you have that the law will not become permanent?

Mr. GRAHAM. You are almost asking me what confidence I have in Congress.

Mr. McINTIRE. No; Congress is simply responding to what the attitude of the people is. I was just projecting the question whether or not you feel as though there would not be the pressure of these payments becoming an integral part of the annual income of the farmer, and what prospects do you see of being able to phase these off?

Mr. GRAHAM. I think the possibility that you suggest, especially in terms of increased cost, which we see no reason to believe they are going to levee loff—they are not leveling off so far. This is a real problem. However, I think this one ought to be handled on a different basis than the incentive reduction payments. I think the incentive reduction payments should not be on the basis of the cost. This is not, in my estimation, a proper function of the incentive reduction payments.

I think a much better method, especially in Federal orders where there are formulas available for pricing, would be the insistence that the cost of production factor be included in the formula pricing in Federal orders.

This seems to me to be more realistic as an approach to the problem that you are quite properly pointing out. I think that we would resist this continuation of this as a permanent program.

Mr. McINTIRE. Thank you.

Mr. JOHNSON of Wisconsin. Mr. Olson.

Mr. OLSON. In most testimony the question of increased costs is brought up. And it is also suggested that the rest of the economy can continue to look forward to increased costs.

Why is it that costs are expected to rise and why is that that we accept the principle here on the one hand and on the other hand tell farmers that their costs must go down?

Mr. GRAHAM. I think it is largely the result, as I indicated, of the previous legislation that is basically designed to improve and protect the wages of labor and the profits of industry through both wage-hour legislation and tariffs.

I think we have legislated it into being, and having done that, I do not know how to unlegislate it. People talk about doing away with some of this legislation. The time is 25 years past when we could have done away with much of the labor legislation.

I do not know that it is advisable if we could do away with it. The problem is here. It is part of our economic processes that we have created through legislation. This is why some of the answers must be answered through legislation.

Mr. OLSON. I would pursue this question additionally, to say that the cost of labor supposedly is less because of automation. I think every Member of Congress, as well as the general public, is aware of this problem, but yet manufacturing costs continue to rise in spite of this.

We have testimony that no matter what happens, the price of bread continues to rise and does not go down, no matter what happens to the price of wheat. And they mention other things. We have laws that protect the public, such as the antitrust laws, dealing with monopolies. We have all types of legislation built in to help. It is not fair to assume that maybe we should not treat agriculture as a problem child, when you through your testimony come down and present the legitimate problem?

When other segments of our economy present a problem to Congress, we do not react by expecting that particular segment of our economy to never have any additional problems. New problems do arise and it is proper to bring them before Congress; is this not so?

Mr. GRAHAM. This is correct. They have a way of controlling the problem within business and industry which we do not have in agriculture, as you are well aware. They can produce for a market in industry and market that product at a cost plus a profit, or they can very easily reduce their production to stimulate the demand for other products, and so they have a built-in ability to meet this cost factor.

This happened after the war. Every time labor wanted a raise, industry gave the raise, since they could pass it on directly to the consumer with no difficulty. It is much more difficult for us to do that in terms of agriculture.

Mr. JOHNSON of Wisconsin. We will have to proceed much faster. It is now 20 minutes to 12 and we have many more witnesses to hear from.

Mr. BEERMANN. I think there ought to be one comment made here, as many people do not take into account that much of this difficulty is based on taxes, Federal, State, and local.

Mr. GRAHAM. I would agree with you.

Mr. JOHNSON of Wisconsin. I notice that we now have with us a former member of the committee, who was on this committee before I became a member. I think that Mr. McIntire and others were here when he was here, Senator Eugene McCarthy from Minnesota.

You were listed to testify first this morning, Senator, but were not present and so we proceeded.

STATEMENT OF HON. EUGENE J. McCARTHY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator McCARTHY. Mr. Chairman and members of the committee, I think it is probably good advice not to wait for the Senate, generally, so I have no objection to your having proceeded ahead of me here this morning.

As a matter of fact, it can be argued that you ought to proceed on dairy legislation ahead of the Senate for the general good of the country. Your going ahead this morning may establish a very good precedent.

I did serve on the committee back in the 82d Congress. I served with some of the present members of the committee, and I certainly appreciate the chance to appear here this morning and to testify regarding the situation in the dairy industry, and to make some recommendations regarding legislation which I think might be helpful.

I know the members of this committee are generally familiar with what has happened and is happening in the dairy industry and that you are familiar with the general nature of the proposals which I have been making over the last 2 years to assist the dairy industry. They are not very different from the proposals that have been made by the gentleman from Wisconsin, Mr. Johnson.

They are almost identical with the legislation that has been introduced here by my colleague from the State of Minnesota, Mr. Olson.

The general proposal is for a program to operate in two areas, one within the marketing order areas and the other to deal with the dairy-man marketing outside Federal order markets.

My proposal incorporates the provision of what is known in the Senate as the Proxmire bill, which allows those producers who are operating within marketing orders to decide whether or not they want to allocate a class I base to members. This would permit them to cut back on the production of milk for manufacturing purposes.

I would propose surplus reduction payments of up to \$2.50 per hundredweight for the amount of reduced marketings by producers within the marketing order. In addition to that, I propose for dairy-men who are outside of the marketing order that a voluntary program should be set up allowing them to receive up to 50 cents a hundredweight on their marketings of manufacturing milk, if they agree to hold the line or to reduce production below their current level.

Mr. Murphy, Under Secretary of Agriculture, testified in general about these proposals yesterday, giving you the Department's analysis as to what would happen if the legislation I propose were adopted in terms of the reduction in the cost of the program to the Government and the increase in the net income of the dairy farmers.

We certainly hope that the committee might see its way clear to act on this legislation at this session of Congress.

I would like to insert in the record the comparison of the costs and the benefits of my program in contrast with the present program and with the so-called Proxmire class I base program.

(The summary of provisions, together with the table, follows:)

SUMMARY OF PROVISIONS OF THE MCCARTHY DAIRY BILL (S. 1961)

- (1) The program is voluntary.
- (2) It retains the present general price support level of 75 percent of parity.
- (3) It incorporates the class I base plan. This permits producers to amend their Federal market order so as to cut back on production of surplus milk (used for manufacturing purposes) without losing their share of the premium-priced fluid-use sales.
- (4) Producers under Federal orders who agree to cut production 10 percent or more would be paid reduction incentive payments of up to \$2.50 per hundred on the amount they reduced marketings. This provision would be effective until April 1, 1965.
- (5) The Secretary would be authorized to establish a program of direct payments for dairy producers outside of Federal market orders who agree not to expand production. The maximum direct payment would be 50 cents per hundred on their marketings of milk for manufacturing purposes. The Secretary could make one level of payments for producers who hold the line and a higher level for those who agree to cut production by 5 percent. This program would be effective until April 1, 1965.

Senator McCarthy requested the Department to make estimates and the Department chart is attached. It shows that the McCarthy bill compared to the present program could—

Cut surpluses in half; reduce Government costs by \$37 million; increase net income by \$150 million.

MILK MARKETING ADJUSTMENTS

Estimated program results of S. 1915 and McCarthy program (S. 1961) for 1963-64, compared to present program

Item	Unit	Present program		S. 1915 compro- mise class I base plan	McCarthy program with 20- and 40-cent payments ¹
		1962-63 marketing year	1963-64 marketing year		
	(1)	(2)	(3)	(4)	(5)
Support level: By purchases.....	Hundredweight.....	3.11	3.14	3.14	3.14
Milk production.....	Billion pounds.....	125.5	125.5	124.9	120.9
Marketings (milk equivalent):					
Fluid milk and cream.....	do.....	54.0	54.4	54.4	54.4
Manufactured milk and cream.....	do.....	64.0	64.0	63.4	59.4
Total.....	do.....	118.0	118.4	117.8	113.8
Commercial demand (milk equivalent):					
Fluid milk and cream.....	do.....	54.0	54.4	54.4	54.4
Manufactured milk and cream.....	do.....	55.1	55.2	55.2	55.2
Total.....	do.....	109.1	109.6	109.6	109.6
Surplus ²	do.....	8.9	8.8	8.2	4.2
CCC purchases:					
Butter.....	Million pounds.....	355	350	320	113.5
Cheese.....	do.....	140	140	145	180
Nonfat dry milk.....	do.....	1,270	1,200	1,150	848
CCC purchase price:					
Butter.....	Cents per pound.....	58.0	58.0	58.0	58.0
Cheese.....	do.....	34.6	35.6	35.6	35.6
Nonfat dry milk.....	do.....	14.4	14.4	14.4	14.4
CCC net expenditures: Purchases (gross).....	Million dollars.....	511	484	458	296
Reduction payments: ³					
Quantity (milk equivalent).....	Billion pounds.....				2
Rate per hundredweight.....	Dollars.....				2.00
Total.....	Million dollars.....				40
Production payments: ⁴					
Quantity (milk equivalent).....	Billion pounds.....				37.3
Rate per hundredweight.....	Dollars.....				0.20-0.40
Total.....	Million dollars.....				111
Total outlay.....	do.....	511	484	458	447
Sales proceeds.....	do.....	31	31	31	31
Total net program expenditures.....	do.....	480	453	427	416
Dairy farm cash receipts:					
From marketings.....	do.....	4,836	4,871	4,865	4,775
Payments.....	do.....				151
Total receipts.....	do.....	4,836	4,871	4,865	4,926
Effect on net producer income.....	do.....		0	+7	+150

¹ 20-cent payments to manufacturing milk producers who do not exceed their base period marketings and 40-cent payments to those who reduce 5 percent. This estimate assumes 50 percent of manufacturing milk producers participate with 20 percent reducing 5 percent to receive the higher payment. Variations in the percentage of producers reducing do not significantly effect program cost though larger participation would significantly increase net producer income.

² Milk equivalent milk-fat basis.

³ Payment on reduction below base in Federal order markets.

⁴ Payment on manufacturing grade milk.

Senator McCARTHY. I know that your time is short. If you have any questions about my program or about its bearing upon the general agricultural economy or upon other segments of the dairy industry itself, I would be glad to have them.

I would like permission to have my statement inserted in the record. I do not think that it is necessary to go into more detail, because I know that you are familiar with the problem and also with the proposal I am making.

Mr. JOHNSON of Wisconsin. If there is no objection, they will be included in the record at this point.

(The prepared statement of Hon. Eugene J. McCarthy follows:)

STATEMENT OF HON. EUGENE J. MCCARTHY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Mr. Chairman and members of the Dairy Subcommittee, I appreciate this opportunity to testify at your hearing concerning the dairy situation and the need for legislation to meet the serious problems facing the dairy farmers of the Nation.

In the past few months, I have visited with many dairy farmers in Minnesota, and I have had considerable mail from dairy farmers and from representatives of dairy groups across the country. We held extensive hearings on the dairy situation in the Senate Committee on Agriculture. There is widespread unrest and concern among dairy farmers, and in my judgment it is justified. Their economic position has been deteriorating. The present dairy program is inadequate. Dairy farmers are not getting the benefits from it that they might. The market is depressed by the very large surplus and there is little hope for improvement unless the Congress takes steps to reduce this surplus.

As you know, I introduced a dairy bill (S. 961) in the Senate this session, and I plan to propose the section of my bill providing for surplus reduction payments as an amendment to the bill reported by the Senate Committee on Agriculture when the measure comes up for consideration in the Senate.

This section is similar to the bill introduced in the House of Representatives by the chairman of this subcommittee, Congressman Johnson, and similar also to the bill introduced by my colleague in the Minnesota congressional delegation, Congressman Olson.

Another dairy proposal which has been given careful consideration is that which is incorporated in the Senate committee bill. It would permit dairy producers in a Federal market order to amend their orders by abolishing the blend price system. This would enable producers to retain their share of the premium-priced class I sales even though they cut back or did not expand their production of excess milk used for manufacturing purposes.

The program I have proposed is not in opposition to the class I allocation plan nor does it have to be considered as an alternative. The two can be combined, and, in fact, the surplus reduction payments plan can make the class I base proposal effective. It will give producers in the 83 Federal order markets an incentive to reduce their surplus and assist them in making this adjustment. On the other hand there is no evidence that the class I allocation program of itself will make any substantial reduction in the surplus nor in Government costs.

The dominant fact in the dairy situation today is the size of the surplus and its effect upon the market and dairy income.

In the last marketing year the surplus of milk was 8.9 billion pounds of the 118 billion pounds marketed—or about 7.5 percent. The net cost to the Government for the price-support program was \$480 million.

As you know, Secretary Freeman raised the support price after he took office to about \$3.40 per hundred for manufacturing milk. Production rose and consumption of milk and dairy products declined. Because of the excessive surplus the price support was reduced to the minimum required by the law on April 1, 1962, to 75 percent of parity or \$3.11 per hundred. The surplus was blamed on the higher price-support level, even though it was far short of parity, and the critics predicted that the production would decline and the market adjust itself at the lower level. More than 17 months have passed since the support level dropped nearly 30 cents per hundred, but production has continued at a high level. For the first 7 months of this year it declined less than 1 percent over the same period in 1962.

The estimates of the Department of Agriculture indicate that the surplus for the present marketing year will be 8.8 billion pounds, or about the same as last year, while the net costs to the Government of the price-support program will be \$453 million.

The situation is similar to that which prevailed in the case of feed grains before we enacted the emergency legislation in 1961. The immediate need is to reduce the surplus which undermines the market and to restore some degree of balance.

A voluntary program of surplus reduction payments can be established, in the case of milk, which will reduce the surplus, improve net income of dairy producers, and at the same time cut Government costs compared to what they will be if we take no action and continue the existing program. This is true because of the high cost of processing and storing dairy products. The savings accomplished by reducing the surpluses which must be processed and stored will more than offset the payments required to induce the surplus reduction.

The surplus reduction payments under my bill are of two kinds:

(1) Producers in Federal order markets who agreed to cut production would be paid reduction payments of up to \$2.50 per hundred on the amount they reduced their marketings.

(2) Producers outside Federal order markets—and this includes the majority of dairy farmers in the country, and their herds produce about 55 percent of the milk—would be given production payments of up to 50 cents per hundred on the manufacturing milk they marketed if they agreed not to expand production. My bill authorizes the Secretary to establish different levels of payments depending on the agreement to curtail production. The Secretary could make one level of payments—at 20 cents per hundred for those who held the line and did not expand their marketings of manufacturing milk, and he could offer a higher level—40 cents per hundred to those outside orders who agreed to cut back by 5 percent.

The estimates made by the Department show that such a program of surplus reduction payments would—

(1) cut the surplus of milk by over 50 percent, from 8.8 to 4.2 billion pounds;

(2) increase the net income of dairy farmers by \$150 million; and

(3) reduce Government costs by \$37 million as compared to costs under the existing program.

In my judgment we cannot meet the existing critical situation in the dairy industry unless we take decisive action such as that I have outlined. I believe we should enact a program which will bring benefits to all the producers—the producers of manufacturing milk outside Federal order markets as well as those producers who already have the benefits of the premium prices guaranteed under market orders. I do not believe we should miss this opportunity to improve the net income of dairy farmers and of cutting the surplus in half while at the same time reducing Government costs.

Finally, we must be concerned about the tendency to isolate farm commodities and to consider the producers' welfare of importance only if they affect the particular district or region in which a Member of Congress and his constituents live. Cotton is of particular interest to farmers in certain sections, but the cotton industry and the welfare of cotton producers is of concern to all. Milk is produced in every State but dairy production is concentrated in the Great Lakes region. Yet the welfare of dairy farmers is the concern of all—and the product of their work is of importance to all the children and to all the people of the Nation. The gross receipts to farmers from milk amount to nearly \$5 billion annually. It is a significant source of farm income, and the economic distress of dairy producers is a matter we should not ignore.

Mr. Chairman, I wish to thank you for the opportunity to appear before the Dairy Subcommittee. I know of your deep concern for the welfare of dairy farmers and the concern, also, of a majority of Members of the House. Last year the House approved a dairy program providing reduction payments. We were unable to secure approval in the Senate. Had we adopted the dairy amendment last year I am sure the dairy farmers would be in a better position today. I hope that this session, both the Senate and the House, will approve a measure to meet the dairy problem and to improve the income of dairy farmers.

Mr. JOHNSON of Wisconsin. Are there any questions?

Mr. McINTIRE. Might I express my pleasure at having you appear personally before us this morning? We are glad to have your statement.

Senator McCARTHY. Thank you, Mr. McIntire.

Mr. JOHNSON of Wisconsin. I am also very pleased to have you come over here, and being from a neighboring State, I am very proud that you are associated with me in this legislation.

Mr. BELCHER. I am very glad that Senator McCarthy is appearing before the committee this morning. He and I went on the committee at about the same time, and one of the first problems we had before the committee was the beef price rollbacks, and he and I debated that issue nationwide.

I am glad that he has come back over here today to talk to us.

Senator McCARTHY. Thank you.

Mr. BEERMANN. If the House would act on a dairy bill, is there any guarantee that the Senate will act on a dairy bill? Or would you prefer that the Senate act on it first, and then the House take action on it?

Senator McCARTHY. I say this, that the recent precedent regarding farm legislation has encouraged us to believe that the Senate is inclined to follow the action of the House. As you know, in the recent feed grains bill we insisted and held the line and the Senate did not change even a comma of the bill that you passed.

Mr. BEERMANN. There was a deadline.

Senator McCARTHY. We still have deadlines. I think that if you read the record over the last 2 or 3 years, you will find that it is one that should encourage the House Agriculture Committee to have confidence in such procedure. Maybe now that you have the initiative you ought to push forward strongly, and I will do everything I can to get the Senate to follow you on a dairy program.

Mr. BEERMANN. We would like to have legislation acted on here, if you would consider it. If the Senate does not consider it, there is not much use. There are some who feel that we should wait Senate action and then the House should go ahead.

Mr. JOHNSON of Wisconsin. I might say that a year ago we passed a dairy program similar to part of this legislation and we got turned down.

Senator McCARTHY. I think that this is a somewhat better proposal an somewhat easier to defend than was the one that you sent over last year. It was my opinion that the bill that you sent over from the House last year, had it been adopted, would have improved the situation in the dairy industry.

Mr. OLSON. I would just like to say this to the Senator, that I certainly appreciate the research he has made into the dairy program this year. The first bill that he first introduced did encompass all of the phases that we are talking about as a package approach to this dairy problem. He has probably put in the most work on this measure or this legislation before Congress and I commend him for what he has done and realize that he cannot speak for all of the Senate, but we are happy to have you here and we appreciate very much the work you have done.

Senator McCARTHY. Thank you very much.

Mr. JOHNSON of Wisconsin. If there are not further questions, we want to thank you for coming before us.

Senator McCARTHY. Thank you very much.

Mr. JOHNSON of Wisconsin. We will next hear from the American Farm Bureau Federation, Mr. Marvin McLain.

STATEMENT OF MARVIN L. McLAIN, ASSISTANT LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU FEDERATION; ACCOMPANIED BY JOHN C. DATT, ASSISTANT TO THE DIRECTOR OF THE WASHINGTON OFFICE

Mr. McLAIN. Mr. Chairman and members of the committee, we appreciate very much the privilege of appearing before this committee again. As you know, we had two of our State presidents, including one from your own State here, when we appeared at your earlier hearings. Mr. Datt, who is from Pennsylvania and very familiar with the marketing order program, is with me here to help answer any questions you may have.

Our statement is very brief and I believe that I will just read it, and then if you have any questions, we will be happy to proceed with them.

We appreciate this opportunity to further discuss the present dairy price support and marketing order program and three bills—H.R. 7120, H.R. 7261, and H.R. 8357. These bills have all been introduced since we testified before your subcommittee on March 21, 1963. It is our understanding that this current hearing has been called to consider these three bills and to review the proposals made at the time of the March 21 hearing.

When we appeared before the subcommittee on March 21, 1963, we pointed out that the dairy situation was improving. We indicated among many other things that, if talk of supply management programs for the dairy industry would cease and if price supports were left at the current level and we did our best to sell dairy products, the entire dairy situation would improve.

Confirming our testimony at that time is a statement found in the Dairy Situation issued by USDA on September 3, 1963. The following is a quote from part of this summary that is pertinent to this statement:

Midyear milk cow numbers were reported at 16.6 million, down 2.8 percent from the 17.1 million last June. This is the largest percentage decrease since June 1959. A continued substantial decline is in prospect during the coming fall and winter months.

Milk production declined 0.7 percent in June and 0.5 percent in July from a year earlier. The monthly decline from the year-earlier level since the start of 1963 averages 0.8 percent. Milk production likely will be less than 125.3 billion pounds in 1963, compared with 125.9 billion in 1962.

Because of lower production and increased commercial demand the first 7 months this year, CCC purchases (delivery basis) in terms of milk equivalent were down about 25 percent from a year earlier. Butter purchases were down about 18 percent and cheese purchases about 60 percent. Purchases of nonfat dry milk were down 20 percent.

During the first half of 1963, commercial disappearance of all dairy products (milk equivalent) was about 2 percent above the same period of 1962. This gain indicates that consumption per person in 1963 may be close to 1962 levels, despite anticipated lower CCC donations for domestic distribution. Sales of manufactured dairy products were up 1.5 percent and fluid product sales were up more than 2 percent. Commercial usage of nonfat dry milk increased 35 percent above the low level in the first half of last year. Commercial disappearance of cheese was up about 4 percent from a year earlier compared with a decline of 3 percent in the first 6 months of 1962 from the first half of 1961. Ice cream continued to gain.

I think this is one of the most optimistic reports we have had for the dairy industry since unfortunately, price support levels were raised

by the Congress and later the Secretary of Agriculture back in 1960 and 1961.

It is obvious, from the latest summary of the Dairy Situation issued by USDA, that we are moving rapidly in the right direction—what we should do is to all work together to stimulate further increase in consumption and cease talking about supply management programs for the dairy industry.

H.R. 7120, H.R. 7261, and H.R. 8357 are the three bills we are considering.

These bills would amend the market order program to provide for market allocations for individual producers under Federal milk marketing orders. Each of these bills also has in it a provision (different in each case) for making compensatory (Brannan type) payments. In all of these bills except one, compensatory payments would be made to dairy producers both inside and outside milk marketing order areas.

We vigorously oppose the principle involved in changing Federal milk marketing orders to permit market allocations for individual producers as well as the provisions in all of these bills to make compensatory payments.

Our principal reasons for objecting to the changes in the market order program suggested in these bills are as follows:

1. We believe that Congress should assist in moving toward the private, competitive enterprise marketing system in agricultural production and marketing, and away from unnecessary governmental regulation. These proposals would result in fluid milk producers being directly regulated under Federal milk orders for the first time. They would be subject to penalties for violations and would have to keep such records "as the Secretary may prescribe."

2. The implied assumption that each fluid milk market is sufficient unto itself and completely independent of all similar markets is unrealistic and unsound. There is a great deal of overlapping of market supply and sales areas and intermarket movement of milk.

If a class I base plan were incorporated into a Federal order, adjacent markets with orders likely would be forced to adopt similar plans in self-defense. The end result could be a single, nationwide Federal milk order.

3. This plan could lead to severe restrictions on entry of new producers and some kind of trade barrier to keep out milk from other areas. We believe in reasonable competition in all areas of our economy, and in the right of new producers—particularly young people—to have an opportunity to engage in dairy farming if they so desire.

4. At first, many farmers might cut their milk production because they would receive the lowest class price for all milk delivered in excess of their individual "allocations" (quotas). If the farm price for fluid uses remained unchanged, the average farmer's gross income would drop when he cut his milk production. His "fixed" costs of production would continue whether or not he produced excess milk. This would cause a decline in his net income, resulting in pressure for higher class I prices that would reduce consumption, intensify competition from "new" or "outside" producers, and widen the spread between prices for fluid and manufacturing uses.

5. The Secretary of Agriculture would determine whether—and under what conditions—allocations would be transferable. If allocations were negotiable, this could stimulate corporation farming because of the advantage large corporations would have in terms of capital available for new investments, thus working to the detriment of family owned and operated farms. If allocations were not transferable under any conditions, current farming operations would be “frozen.” The situation would deteriorate further if one order market had a plan with negotiable bases and a nearby market had a plan with nontransferable bases.

6. If the allocation plan failed—as appears highly probable—pressure would mount for nationwide production controls, undesirable though those would be.

I am sure that all of the members of this committee realize that we have a certain element in this country that would like to see this happen to the dairy industry.

Our principal reasons for objecting to the compensatory payment provision of each of these bills can best be stated by quoting from the policy statement approved by the voting delegates of the member State Farm Bureaus at their last annual meeting of the American Farm Bureau Federation:

Compensatory payments are proposed in a variety of forms. Regardless of the form in which presented, the payment approach is unsound and dangerous to our economic and political system. It would be fantastically expensive and would stimulate production, increase unit costs, depress market prices, lead to tight production controls, and make farmers dependent on congressional appropriations for a substantial part of their total income.

Limitations on payments to individuals would place a ceiling on opportunity and level farm incomes downward.

Payment programs would socialize the production and distribution of food and fiber by having consumers pay a part of the cost through taxes—rather than full value at the store. This is a trap for producers. Ultimately, the payment approach also would be a trap for consumers, since it would encourage inefficiency and thereby result in high real costs of food and fiber.

We vigorously oppose any system of compensatory payments for agriculture.

We do not believe that a direct payments program would reduce farm production of milk or Government expenditures for price supports. Some proposals would result in far greater expenditures than those incurred under the present support program. Any direct payments program would: (1) Place participating dairy farmers on a Government dole, subject to every political whim, and (2) be tremendously expensive to administer because it would require supervision of annual marketings of about 1 million dairy farmers and supervision of operations of thousands of milk plants.

I notice that yesterday when one of you, I believe Mr. Beermann and Mr. Belcher, raised the question on how many more added employees it would require, the Under Secretary of Agriculture, Mr. Murphy, admitted that there would be a considerable number, but he did not know how many. You can well guess how many.

It also would: (1) Stimulate production at a time when output exceeds commercial demand at present farm prices, (2) increase the total cost per quart or per pound to consumers because of higher taxes, and (3) accustom dairymen to sharing markets on the basis of historical production and Government allotments. This could be the first step toward rigid production controls and Federal domination of the dairy industry.

We are not today proposing any change in the dairy price support program, because we believe we are moving in the right direction, but if you are serious in wanting to change the support program, then as we testified back in March, we have included in this statement our method of doing this which would tie support rates to the market system, which we think makes sense.

Farm Bureau's proposal to improve the dairy price support program: Voting delegates at the last annual meeting of the American Farm Bureau Federation restated their belief that the basis for price supports on manufactured dairy products should be shifted in an orderly manner from a percentage of parity to a percentage of average market prices.

The support program would continue to be operated by the Federal Government and farm prices of milk and milkfat still would be supported by purchases of manufactured dairy products at wholesale market prices.

Support prices and resale policy: In March 1963, the board of directors of the American Farm Bureau Federation determined how Farm Bureau's policy on market-related dairy price supports could be implemented. The board's action was based on a study and recommendation by Farm Bureau's National Dairy Advisory Committee.

If Farm Bureau's proposals were implemented, the discretionary power of the Secretary of Agriculture with respect to the level at which dairy price supports are established would be terminated. Instead, the support prices for manufacturing milk and farm-separated cream would be prescribed by law as follows:

<i>Program year</i>	<i>Support level</i>
1963-64-----	75 percent of parity.
1964-65-----	95 percent of the actual market price during the 3 years immediately preceding.
1965-66-----	95 percent of the actual market price during the 3 years immediately preceding.
Each year thereafter-----	90 percent of the actual market price during the 3 years immediately preceding.

If market-related supports were adopted and the support price were \$3.14 per hundredweight in 1963-64, the market price during the first 2 program years might reasonably be expected to average at least \$3.20 per hundredweight. It is anticipated that the market price would trend upward after the first 2 years. The remaining year of the 3-year transition period would be provided to offset any unforeseen developments that might occur and that might otherwise interfere with the smoothness of the transition from parity-related to market-related price supports.

An important and integral feature of this approach would be a provision preventing Government stocks from being dumped onto the market for unrestricted domestic use at less than 115 percent of the current support price per unit.

The advantages of this approach: This market-related dairy price support program would have many benefits and many advantages over the present program or alternative programs that have been submitted to Congress. Among the most important are these:

(1) This forward-looking price support approach is the same as that proposed by Farm Bureau for certain other price-supported farm commodities, but it would be tailored to the needs of dairy farmers.

(2) Support prices would change as conditions changed in the market, but severe drops in market prices would not occur. The long-run adverse effects of a price-fixing program would also be prevented.

(3) Each dairy farmer would be free to plan his production enterprise as he saw fit. Backward-looking, restrictive controls would be avoided.

(4) Farm production of milk and cream would be brought into line with demand through competitive pricing. As total consumption requirements increase, production also would increase.

(5) Total domestic consumption of milk and its products would increase in the long run.

(6) Consumers would pay prices approximating the market value of dairy products as set by supply and demand conditions.

(7) Costs to taxpayers for the dairy price support program would be reduced far below present levels.

(8) The continuous political maneuvering that characterizes the present program would be substantially lessened. No Secretary of Agriculture would have discretionary authority to change the level of price supports, and to repeat mistakes made in the past.

(9) Administration would be relatively simple. And this is a price support program that dairy farmers and others can readily understand.

Then in conclusion, as we stated at the beginning of our testimony, we believe we are making rapid progress in solving the problems that confront the dairy industry. The report from the USDA in the Dairy Situation issued September 3 is proof of this progress.

We believe that if we cease talking about Government supply management programs for the dairy industry either in the market order areas or outside these areas, the present progress of balancing supply and demand will continue. This is on the assumption, of course, that in no event will the support price be set higher than current levels.

We strongly urge this subcommittee to turn down the bills that are currently being considered and indicate that it is your view that no new legislation is needed at this time. If this subcommittee would make such a statement and urge the dairy industry to do an even better job producing a quality product with a vigorous sales program, you would be doing an outstanding service to the entire dairy industry.

As long as uncertainty exists because of hearings in either the House or the Senate, farmers will continue to feel that they should maintain or increase their production in order to be in the best possible position should bases and marketing quotas become effective. The subcommittee, by turning down all of these bills, would discourage such action on the part of dairy producers, thus improving the entire dairy situation.

We appreciate this opportunity of presenting our views.

Mr. JOHNSON of Wisconsin. Thank you for your statement. I have one question. I believe that you have been opposed to compensatory payments on cotton?

Mr. McLAIN. We have strongly opposed the compensatory payment bill on cotton, the Cooley bill, which, as you know, has been approved by this committee by a small margin.

Mr. JOHNSON of Wisconsin. And you opposed the sugar program?

Mr. McLAIN. We have had a longtime position on the sugar program that indicated that we were for it. Primarily, as you well know,

because we do not produce enough sugar in this country and we have a very difficult problem in determining where we are going to get our supply that we do not produce. Our organization has been very emphatic in recent years, particularly at the time of the last sugar hearings, when we requested that our domestic producers be permitted a higher percentage to produce a larger share of the needed supply in this country. We have been overridden in that view by some of the members of this committee who are not here today.

Mr. JOHNSON of Wisconsin. I think that you were opposed to the wool program?

Mr. McLAIN. The wool program, of course, we have supported as it has been, not with any great enthusiasm and again because wool is a deficit produced crop.

Mr. JOHNSON of Wisconsin. Are there any questions from members of the committee?

Mr. OLSON. In your estimation the bills that are before us now, would they tend to increase the milk production?

Mr. McLAIN. We think that they will not improve the situation and will be more costly.

Mr. OLSON. In other words, the answer to my question is that you would not say that this legislation would increase milk production?

Mr. McLAIN. I think that there is a question of whether it would or would not. Nobody knows whether it would or would not. I think you gentlemen, if you are acquainted at all with what dairy producers do—and I have been one all my life—that there is no provision in these bills to prevent the people that have the cows if they are going to reduce in the market order areas, or other places, from selling these cows to Joe Doakes or anyone else to keep on producing. There is nothing in these bills that prevents this.

I am sure that good producing cows will continue to produce regardless of any of these bills that you are talking about. I think it is a pretty much fantasy to think that you will substantially reduce production by the approach that you are talking about here. I think it will be proven that way if the bill should become law.

Mr. OLSON. The bills, primarily, do not increase the price. Do you subscribe to the view that this situation would tend to reduce production if we did not increase the price, in an effort to save the Government some money, the taxpayers money, and spend that money in not taking any action which would assure increased production—I believe that this would eliminate some of the objections; would it not?

Mr. McLAIN. I still do not agree with your assumption that this is going to cost less money, Mr. Olson. I quoted from the U.S. Department of Agriculture figures in the Situation Report, produced by the career people in the Department. I do not agree with the statement made by Mr. Murphy yesterday on the cost of these proposed programs. I think you will find that the costs of the compensatory payment part of this program will be much in excess of what Mr. Murphy indicated. It just cannot help but be that way. I think you will end up with a total cost which might well be in excess of what we are currently paying.

We desperately need for you people, as well as others, to quit talking about controls in the dairy industry. If we could just, as Senator Ellender said earlier this spring, quit talking about controls, we would all be better off. We still have hearings, and this is your prerogative

and we do not disagree with this, but as long as we talk about quotas you are going to find a lot of producers, and many of our members are in this group and admitted to us that they want to continue to hold up their base. Why should they not?

The whole history of the control programs is that the fellow who causes the problem gets rewarded when you move in to try to solve it. That is true with everything.

Mr. OLSON. Of course, even in spite of the talk of quotas your testimony bears out the fact that production has lessened somewhat.

Mr. McLAIN. May I say something on this point? I think that production has lessened. All you have to do is to look at the record, as Al Smith said, since the Congress in 1960 and then later Secretary Freeman for 1 year both made mistakes in judgment and increased the support and we had an upturn of production. Since it has been decreased we have a downturn ever since that time. And I think that the Department itself indicates by this statement that we are improving. Let us let things improve and not worry too much about the supply management in this area.

Our members would be very happy if this were done.

Mr. OLSON. Are you in favor of Federal milk marketing order areas?

Mr. McLAIN. Yes; we have supported the order areas ever since we have had them.

Mr. OLSON. We have had questions asked almost every witness as to their recommendation pertaining to adoption of a basic section of the bill, whether people should vote individually or otherwise. What are your recommendations?

Mr. McLAIN. We recommend in this area, on a thing that is as major as this would be, that we permit individuals to vote.

Mr. OLSON. I see. I believe that one of your largest member States, the Illinois Agricultural Association, had approved the class I base plan.

Mr. McLAIN. We have members who are for this plan in a few States. This is correct. Part of our organization, of course, is made up of members who are for this plan. This is correct. Our organization, of course, is made up of members in 49 States, and we try to represent all of them. This was thoroughly and very energetically discussed at our annual meeting in Atlanta last December, and almost unanimously the decision was as we have presented it here today.

Mr. OLSON. We both recognize, of course, that your organization does represent bloc voting, that you do have a large membership in the State of Illinois who are for the class I base plan, and that you are testifying against it.

Mr. McLAIN. I think that any organization representative would indicate that we have over 1,600,000 farm families and obviously every one could not express their views to this committee. I can say to you on this issue before it was finally resolved, after many hours of discussion, there was not any objection to the way it was resolved.

Mr. OLSON. When you were employed in the Department of Agriculture previously did you have anything to do with the dairy situation?

Mr. McLAIN. I have been, as I have indicated, a dairyman all of my life. While I was in the Department, of course, I had charge of the big end of the dairy program, that is correct, sir.

Mr. OLSON. What solutions did you try to apply to the dairy situation when you were there?

Mr. McLAIN. We recommended, of course, that the support rate be reduced and were successful in getting the Congress to reduce the support rate. The spread, of course, is still pretty much optional between 75 and 90 percent on supports, as you know. Supply and demand must be considered.

We several times suggested that the minimum permissible be reduced. Currently, our organization of course suggests that we relate it to the market price for the last 3 years which we think makes a lot of sense, not only with this program but with all other price support programs, because if you are going to sell the product—and that is what we are interested in—we are interested in producing for the market, not for the warehouse—and if you are going to sell you have to relate price supports to the market or else you will have to take over a lot of surplus.

Mr. OLSON. I believe that is an interesting point that we are trying to make, especially in relation to the Federal milk marketing order areas that we are trying to produce for the market; in other words, the class I base is doing exactly or attempting to do exactly what you have said, that is, to produce for the market, that is, rather than to subsidize and to support the manufacturers of surplus milk, to the point that the outside ones cannot make a profit.

Mr. McLAIN. I know that is the intent of these bills. And a lot of people with good faith honestly believe this. We just do not happen to believe after thorough consideration of this by people who produce in these areas that you are going to end up with the result that you think you will. I think time will prove this if it should become law.

Mr. BEERMANN. I want to commend you for your statement, and emphasize along with the conclusion of your testimony that more farmers, regardless of the commodity, realize selling is as important as production. And when we look back at the poultry industry and the turkey industry specifically, many people built up their production to 120 percent, figuring that when they cut back they would cut back to 100 percent, rather than to cut it back to 80 percent or some other figure.

I would like to commend you very much on your position taken in your statement in its reflection toward the present sentiment in the country.

Mr. OLSON. Will you yield for one point?

Mr. BEERMANN. Yes.

Mr. OLSON. I have received a letter from one constituent in my district in which he pointed out that it would be advisable if the Government purchased under section 32 funds, 2 million pounds more turkey this year than last because the hatch is up. They had a greater hatch this spring than before, where they had complete freedom to produce.

Mr. JOHNSON of Wisconsin. Are there any further questions?

Mr. McLAIN. Mr. Datt wants to comment further on the Illinois agriculture situation.

Mr. JOHNSON of Wisconsin. We will be glad to hear from you.

Mr. DATT. Mr. Olson questioned about the position of the Illinois Agricultural Association on this particular proposal. At the last

meeting of the American Farm Bureau Federation on this question that was discussed by the folks who were there. The State Farm Bureau presidents who make up our resolutions committee, several State Farm Bureaus were for it, there was a thorough discussion and when the final vote was taken it was agreed to be opposed to it.

Under the membership agreement that the American Farm Bureau has with the State Farm Bureaus, they have an option to indicate to the American Farm Bureau that they cannot support any of the policies adopted by the voting delegates.

To my knowledge, we have not received any indication from the Illinois Agricultural Association that they are not in support of this particular position.

Mr. JOHNSON of Wisconsin. If there are no further questions we will proceed.

Mr. McINTIRE. I would like to ask one question. May I first express my appreciation of the paper of the American Farm Bureau Federation. I appreciate your comments on the suggestion that has been made that there be a transitional period and that subsequently we would remove any payment programs. Would you care to comment on what your observations might be as to that possibility?

Mr. McLAIN. I have worked with Government programs ever since we have had them in 1932, first at the county level, then the State level, and 8 years down here in the Department. And then since then with the American Farm Bureau Federation. And I can say to you that anyone that thinks you are going to start a compensatory payment program for the dairy industry and make it temporary just does not understand the history of this Congress, past Congresses, and the demands that will be made upon you. It is not the Congress fault, because once you start this road, this is the way you are going to go.

One of the reasons why we are so adamant against compensatory payments is that if you go back to Mr. Brennan's day when he suggested compensatory payments for other commodities, other than basic commodities, the Democratic Congress turned him down. It was because the cost of such a program, if you start in this direction, get clear out of bounds.

Our organization happens to believe in fiscal responsibility. We are going to oppose the tax cut vigorously unless we can get expenditures reduced. We believe that if you are going to talk this way you have to act this way. And we believe that the future of this country depends upon being fiscally responsible. And if you start another program like this with the dairy industry, and then with cotton, what are you going to say to the turkeygrower and the broilergrower and every other grower? Even the lettuce grower. This is the thing that you ought to fully realize, the direction we are headed for.

This is one of the big reasons why we oppose this approach. This will not be temporary. If you write it in for 2 or 3 years it will be extended. You have been around here a long enough time to know that, Mr. McIntire.

Mr. DUNCAN. As I understand the testimony, much of what you say I am in agreement with. That is one of the concepts that we had in the wheat legislation. I am fully in agreement with your statement that we ought to be increasing consumption, finding new markets. I do not expect that needs to be the exclusive area of endeavor. We can do that along with other things. Now you have statistics on the

decline in the balance between consumption and production nationwide, and you figure that this is correcting itself at a lower price support?

Mr. McLAIN. Yes, sir.

Mr. DUNCAN. Is this true in the specific milk marketing order areas? Isn't production increasing in specific areas where the orders are in existence?

Mr. McLAIN. This is correct.

Mr. DUNCAN. Are we not in effect subsidizing that surplus production in those specific marketing order areas where a farmer has to continue to produce more milk than he can sell at a profit in order to hold his base?

Mr. McLAIN. Mr. Duncan, I think that you have touched on a very, very important thing. One of the reasons why, in addition to the reason the previous witness gave, the representative of the Grange, is that for several years we have been talking about quotas in the dairy industry. This is why we put so much emphasis on this. If we could get the Congress to say, "We have listened to you and we do not think it is wise and we are not going to have quotas," I think that you would see even in order areas—you would see some desire made to not increase further.

I have been in agriculture all of my life. I can say on top of this it has been my experience that farmers do not produce or increase their production very long if they do not think there is some gain in it for them.

Mr. DUNCAN. Unless there is an increase in gross income.

Mr. McLAIN. Yes.

Mr. DUNCAN. And this is at a loss per unit of production?

Mr. McLAIN. Yes.

Mr. DUNCAN. There is a specific problem there, and it is largely as the result of the law we have now. The question in my mind is how can you say that we need no legislation when we have admittedly a bad situation that needs correcting?

Mr. McLAIN. I think that if we quit talking about this kind of a program the situation will right itself a lot more quickly than you think it will.

Mr. DUNCAN. Under the present milk marketing order law?

Mr. McLAIN. Yes.

Mr. DUNCAN. You say that no changes need be made in the milk marketing orders?

Mr. McLAIN. That is correct.

Mr. DUNCAN. You would not even suggest that we, perhaps, ought to take the milk marketing orders off?

Mr. McLAIN. No, no. Our membership on this point has had many lengthy discussions. There are people outside of the order areas who think others get favored treatment. We have had a longtime position of being in favor of these order programs. We would hate to see them reconstituted by trying to bring production controls into them, because our experience with production controls in agriculture has been a dismal failure.

Mr. DUNCAN. Would you eliminate the support price for surplus milk?

Mr. McLAIN. No.

Mr. DUNCAN. What you are advocating is—

Mr. McLAIN. We are saying that our recommendation on price supports, of course, would relate price supports to the market system which would have the effect, we think, of keeping us from purchasing quite as much as we are doing now. We have had this dairy program ever since the beginning of these programs. I think there is a basis for them, because of the fact that milk is a product that meets universal appeal, that is almost the staff of life, along with bread, and we have supported the dairy program for the reason that it is a product universally produced even though it has been kind of costly. We feel that the cost could be reduced, and that they would be if we quit talking about the control aspects of this situation. In my area of the country, out in Minnesota and Iowa, in that area, we have a lot of people who have shifted out of dairying because they have other alternatives.

Mr. DUNCAN. But it is a fact that the production of milk surplus is increasing, in the order areas, and you are not advocating the elimination of purchases by the Government. There is no indication that in the milk marketing order areas the situation is improving itself. It seems to me that corrective legislation is needed in those areas. That is, the elimination of laws that we have presently on the books.

Mr. McLAIN. Let me tell you this, in my judgment, if you proceed with a bill which will do nothing but take care of the milk marketing areas, you are going to end up with a bill which, like Mr. Johnson and Mr. McCarthy want, will ultimately lead to supply management in the dairy industry.

Mr. DUNCAN. And the farmers would do it voluntarily.

Mr. McLAIN. Yes; they might be forced to.

Mr. DUNCAN. And the cooperatives would do it by block voting and the like. This is true, that some of these voluntary cooperatives in the class I base price system, with it they have succeeded in balancing production and consumption.

Mr. McLAIN. Some of them have, but if you go up to Vermont, you will learn, as you can from Senator Aiken who is one of the best experts in the dairy industry—he can tell you what a sad affair they have had in the State of Vermont. This is why he is opposed to this whole approach.

Mr. DUNCAN. There are many areas where it has succeeded, are there not; is that not correct?

Mr. McLAIN. That is correct.

Mr. DUNCAN. And although a person really has no property right in the quota, quotas that can be conveyed. It is a restriction of the right of somebody else to be in the dairy industry. But it just seems to me that by virtue of the law, we have a situation in the milk marketing order area, so that it would be the height of irresponsibility for the Congress to fail to try to take some corrective action.

Mr. McLAIN. Our membership does not agree with this.

Mr. DUNCAN. I understand. Thank you very much.

Mr. JOHNSON of Wisconsin. Thank you, Mr. McLain and Mr. Datt. We have several more witnesses to hear, and most of them are from out of town. I have asked if it would be possible for them to come back tomorrow, but I understand not, so unless there is some objection, we will adjourn until 1 o'clock and we will try to hear them then between 1 o'clock and 2:30.

We will recess until 1 o'clock.

(At 12:10, the hearing was recessed, to reconvene at 1 p.m. the same day.)

AFTERNOON SESSION

Mr. JOHNSON of Wisconsin. The committee will come to order. We will hear from Mr. Fred V. Heinkel, president, Missouri Farmers Association.

STATEMENT OF FRED HEINKEL, PRESIDENT, MISSOURI FARMERS ASSOCIATION, COLUMBIA, MO.

Mr. HEINKEL. Mr. Chairman, if it is agreeable to have this complete statement included in the record, we can make this very short.

Mr. JOHNSON of Wisconsin. The statement will go in the record as read. If you care to make comments on certain parts of it, it is perfectly OK.

Mr. HEINKEL. We recommend that the Congress approve the authorization to establish the class I base plan. We also, of course, because we have about four times as many producers of manufacturing milk in our State as we do producers of class I milk, feel there should be some change in the program with respect to manufacturing milk.

We think that that should be in the form of a voluntary cutback on production, as outlined in your bill, Mr. Chairman, or as provided for. So we are in favor of the legislation proposed in your bill.

Mr. JOHNSON of Wisconsin. Do you feel we can put class I legislation through without doing something for the manufacturing milk dairy?

Mr. HEINKEL. No; I do not. I think it would be quite unfair and entirely inadequate for the dairy industry as a whole. I think we should do both things at the same time.

Mr. JOHNSON of Wisconsin. How do you feel about this class I legislation? Do you think it should be permanent legislation, or do you feel it should be for a limited number of years and then come back to Congress for reenactment?

Mr. HEINKEL. Well, I am inclined to think that it should have a time limit on it, as most all other legislation does. Sometimes a segment of the industry that gets what it wants and gets it on a permanent basis kind of takes a walk from there on. I think that is proper, too, to be reconsidered from time to time.

Mr. JOHNSON of Wisconsin. You may proceed.

Mr. HEINKEL. Well, that concludes my statement, Mr. Chairman, other than to say that I think the dairy industry is in a critical situation. I don't think that it will correct itself by letting nature take its course, except that as we might bankrupt a lot of people and we had no controls of any kind, voluntary or otherwise, or no agricultural program of any kind in the 1920's and the 1930's, and we saw what happened to agriculture.

So I don't agree with those who contend that the programs we have are the cause of the plight of agriculture at the present time. I think that the contrary is true, that the situation would have been much worse had it not been for the programs that we have had and do have at the present time. I think our feed grain legislation, which is a voluntary program, has moved even faster than anyone has antici-

pated toward rectifying a real bad situation and I think that a voluntary program can work in the dairy industry the same as it has and probably correct the situation much faster, even, than that did in the feed grain instance.

Mr. JOHNSON of Wisconsin. I want to thank you, Mr. Heinkel. I always look forward to seeing you before our committee. This isn't the first time you have been here, by any means.

Mr. HEINKEL. Thank you, Mr. Chairman.

(The complete prepared statement of Fred V. Heinkel follows:)

STATEMENT OF FRED V. HEINKEL, PRESIDENT, MISSOURI FARMERS ASSOCIATION, COLUMBIA, MO.

Mr. Chairman, it is a privilege for me to appear before you today in behalf of over 155,000 Missouri Farmers Association members and to express our convictions regarding agricultural legislation, with specific emphasis on dairy legislation as proposed in the bills before this committee.

As a preface to my statement, I would like to point out the consistency with which the Missouri Farmers Association, since its inception, has adhered to farm policy. Just yesterday, I reread the masthead of the Missouri Farmer, dated January 1, 1914, and there in bold print was the following statement: "Better farming, better farm homes, better citizenship—Production cost and a reasonable profit for the farmer's sweat and toil."

At the same time, I referred to the September 1963 edition of the Missouri Farmer, which continues to be the Missouri Farmers Association official publication, and found the following statement as unanimously adopted at the annual convention of our organization on August 12, 1963: "We reaffirm our position that the farm problem is one of low prices for farm products and of low net farm income. This is the result of greater total production of farm products than the free market will absorb at adequate prices. Farm prices should be at a level which will fairly compensate the farmer for his investment, management and labor."

I am confident the objectives of our association and the objectives of this committee are the same. These objectives are—

1. To raise farm income to a level where the American farmer is receiving a fair return for his capital, labor, and management.
2. To use the principle of supply adjustment coupled with price supports, with the least intervention by the Government.
3. Achieve the above objectives at the lowest cost to the Federal Government.

These are goals for a dairy program. May I quote a portion of our 1963 resolution for dairy legislation: "In view of the serious surplus position of milk and dairy products, a voluntary supply adjustment program with adequate and fair price supports should be adopted immediately, together with enabling legislation which would permit the use by dairy farmers of the Dairyman's class I base plan."

These are certainly our goals in any form of dairy program.

One of the most obvious moves which can be made to reach these desirable results will be to amend the Agricultural Marketing Agreement Act of 1937 to authorize and enable the use of the class I base plan. The proposal to accomplish this is incorporated in the bills now before this committee.

Thus would be provided a means whereby an individual producer, marketing in an area where a class I base plan is in effect, could produce for the class I market. In effect, there would be a definite incentive to a producer to produce for the fluid milk market without being required to share in the lower use classifications of that market.

This is a voluntary type of program which could be quite advantageous to the producers in certain Federal order markets who are now producing a substantial quantity of milk which goes into lower use classifications. Such a program would certainly meet the objectives outlined above.

During the summer of 1960, the Producers Creamery Co. conducted an extensive survey dealing with the price of milk in southwest Missouri. This survey, based on reports from 1,700 grade A dairymen, indicated they would need to receive \$5.10 per hundredweight to fairly compensate the farmer for his investment, management, and labor. The actual price received by dairy farmers in

southwest Missouri during 1960 was \$3.97 per hundredweight, which is only 79 percent of the minimum figure they estimated to be necessary for a fair return.

If these figures are adjusted to 1963 conditions, the grade A dairymen in this area should be getting \$5.40 per hundredweight. However, they actually will receive somewhere around \$3.75 per hundredweight.

Thus the need for a price increase is obvious.

We recommend that you approve the authorization to establish the class I base plan.

The problems in regard to manufacturing milk are somewhat different, and may require a somewhat different approach. We believe that many milk producers are ready to participate in a supply adjustment program.

It is very difficult for us in Missouri to consider dairy legislation for class I producers without considering at the same time legislation for the producers of manufacturing milk, or vice versa. The most recent figures available indicate that there are approximately 4,300 grade A producers in the State of Missouri, while at the same time there are approximately 16,000 producers of manufacturing milk. From these figures it is fairly obvious that any dairy legislation should incorporate provisions to improve the price level for both the producers of grade A and of manufacturing milk.

In view of the success of the feed grains program, a similar approach should be examined with respect to milk for manufacturing purposes. The principle should be the same, to wit: Those producers who are willing to work on the solution to the problem of overproduction on a voluntary basis should be the prime beneficiaries of the program.

As I review the provisions contained in the bills that we are considering today, I see that they are patterned on a principle of voluntary supply adjustment coupled with price supports, and feel confident that this program can be accomplished at a lesser cost to the Federal Government than the program now in effect; a program which does not provide an adequate price to the producer or incorporate the principle of supply adjustment. These proposals provide an incentive for producers to participate in a constructive program that will help solve the dairy farmer's problems.

A second possibility relates to the use of the sound technique of classified use so familiar in the fluid milk markets. This would involve the same approach for manufacturing milk as that used for fluid milk, a national milk marketing order coupled with a base plan for the highest use classification of manufacturing milk. This would likewise involve classifying manufacturing milk used for domestic consumption and commercial exports to a higher use classification than milk moving into Government stocks. Thus, once again, the goals would be achieved. The program would be a voluntary one for the producer who wished to participate, and he would then be the prime beneficiary of the program. Thus could the level of price supports be related to the acceptance or nonacceptance of the producer's base plan.

In conclusion, let me say that we must recognize that if the word "parity" is meaningful, then we must work toward the full attainment of the goal of parity. However, I do not believe that it is either necessary or possible for the U.S. Treasury to carry that kind of a load. But national programs can help provide a lead in working toward that goal. Government programs are not the end in themselves, but only the means to an end. Farmers are not unmindful of the burdens of Government programs, but at the same time they recognize that in this place and time there is no reasonable alternative.

Your evident concern for the health of our country's agriculture is sincerely appreciated.

Mr. JOHNSON of Wisconsin. Is David L. Middleton in the room. I promised him I would put him on first and he was not here. So I will call Mr. William Eckles, general manager of the Pure Milk Producers Cooperative, with offices at 500 North Park Avenue, Fond du Lac.

STATEMENT OF WILLIAM C. ECKLES, GENERAL MANAGER, PURE MILK PRODUCTS COOPERATIVE, FOND DU LAC, WIS.

Mr. ECKLES. Mr. Chairman, I will expedite your proceeding as Mr. Heinkel has suggested, by filing my statement and adding a few remarks.

Mr. JOHNSON of Wisconsin. It will be put in the record as read and you may add your remarks.

(The complete prepared statement of William C. Eckles follows:)

STATEMENT OF WILLIAM ECKLES, GENERAL MANAGER, PURE MILK PRODUCTS COOPERATIVE, FOND DU LAC, WIS.

Mr. Chairman and committee members, my name is William E. Eckles. I am general manager of Pure Milk Products Cooperative, with offices at 500 North Park Avenue, Fond du Lac. With me is Mr. Paul Affeldt, president of Pure Milk Products Cooperative. He is a dairy farmer who operates a farm near Sparta, Wis. It is a typical operating dairy farm of average size for the State.

The organization of dairy farmers whom we represent is made up of some 15,000 grade A and grade B, or manufactured milk producers. Their farms are located throughout the State of Wisconsin, northern Illinois and Upper Peninsula of Michigan. This organization is the Nation's largest dairy bargaining and service cooperative of dairy farmers. Its members marketed in the neighborhood of 3 billion pounds of milk last year. About half of it was marketed under Federal milk orders in Chicago, Milwaukee, Minneapolis-St. Paul, Madison, northeast Wisconsin, and the Upper Peninsula of Michigan. The other half of the members milk was manufactured or grade B milk, and was marketed to plants producing various products. As an example, these manufacturing plants produce condensed, evaporated, and powdered milks, plastic cream, butter, cheese and all types of manufactured dairy products from the Grade B milk.

Our records indicate that our members are producing more milk than they did a year ago, which is an alltime record.

We would strongly reemphasize the need for improved dairy farm income. It is urgent and must be corrected to maintain on an economically sound basis, America's most important segment of agriculture. The cost-price squeeze has caused some producers to quit dairying, but this has not corrected the problem, because those remaining dairymen are producing increased amounts of milk for market to meet their ever-increasing costs of staying in business and maintaining their family living standards.

We feel that the elimination of excessive and costly dairy product reserves in the hands of the Government and reduced governmental costs, are a necessity at as early a date as possible. Continuing heavy expenses for Government purchases of powdered skim milk, butter, and cheese and its storage, converting, packaging, and distribution of dairy products must be reduced substantially, if we are to build a sound dairy farm business.

We cannot be as optimistic about the dairy problem correcting itself under the present program, as some forecasters would "peddle." Reports of reduced production are premature, and if at all correct, they are nominal. Conversion to whole milk deliveries from farm-separated cream will result, we think, in higher farm marketings of milk than that of last year, when the final reports are in. Preliminary forecasts of reductions are unfounded. Again our records show typical production substantially larger marketings by our members. The slight reduction in governmental purchases from those of last year are not a foundation for some of the false optimism being circulated.

We feel that proponents of the present support program on an "as is" basis, are less interested in improved dairy-farm income than they are in capacity manufacturing operations with their products of milk in the form of cheese, butter, and powder sold to the Government for a check from the U.S. Treasury.

Increased uses of dairy products by domestic consumers are other prime objectives of dairy programs for the near future with a near balance of marketings and use. A reserve of products equal to 2 or 3 percent of marketings would seem sound. We do not feel that Congress will forever continue to appropriate large costs of our dairy farm program to the taxpayers for products that are even a problem for foreign disposal.

There have been several proposals for dairy legislation presented to the Senate Agriculture Committee for its consideration this session. We are not reluctant to say that we think most proposals made to date are only a partial remedy for the serious problems. We think they have been totally inadequate in recognizing need for improving dairy farm income and correcting costly Government expenditures.

It is our opinion that legislation should be enacted similar to the Johnson bill, H.R. 7261, that would give farmers a voluntary alternative of substantially improving their income by making direct payments to them if they made efforts

to put ceilings on their ever-increasing marketings. We would strongly support legislation that would adequately compensate dairy farmers for substantially reducing marketings. (We presented the Senate committee with our proposal and ideas on this approach at the hearings on March 21, 1963.)

We recommend the use of a direct payment to manufactured milk producers who reduce marketings below a base established on past marketings. We feel it would be sound to retain the present purchase program for at least another marketing year at 75 percent parity equivalent (\$3.15 per hundredweight), and in addition, make direct payments to grade B, or manufacturing grade dairy farmers who voluntarily reduce marketings or hold such to their past levels of marketings.

The program might well compensate farmers who sign in advance, agreements to limit marketings in increasing increments, larger payments for reduction from their base.

Our suggestions would be that—

(1) The purchase program be continued at 75 percent of parity equivalent on cheese, butter, nonfat dry milk solids.

(2) Manufacturing producers who in advance agreed and reduced marketings by 7 to 10 percent, be compensated by direct payment at the difference between support prices of \$3.15 and 100 percent of parity equivalent of manufactured milk which is \$4.19 per hundredweight.

(3) Dairy producers who agree in writing in advance and limit marketings to 10 to 20 percent below their base, we would suggest receive a payment equal to 110 percent of the parity equivalent of manufactured milk or the difference between \$3.15 per hundredweight (75 percent parity equivalent) and \$4.60 (110 percent parity equivalent) or \$1.15 per hundredweight.

THE PROGRAM WOULD BE VOLUNTARY

This program would, in our opinion, soon correct what is a worsening condition on dairy farms, lower income. It would take the pressure off of the present program that is a subsidy by Government to milk processors that only reaches farmers through a possible trickling down of (competitive?) prices.

The producer desiring not to participate, would have complete freedom to market milk to his heart's content at support prices as at present. Those who want to correct a worsening and endless oversupply problem, would be adequately compensated for assuming the responsibility of reducing marketings and substantially increasing their farm income and returns for limiting their marketings.

This type of a program would soon—

1. Reduce overall marketings and bring into balance marketings and consumption.

2. Move Government out of procurement, storage, conversion, disposal, and repackaging operation, except to the extent needed for essential reserves, stockpiles for governmental operated programs. (Reduce Government costs.)

3. Consumer prices would have no occasion for being increased, or, at least very limited, as a result of the increased income given to voluntarily participating dairy producers. This should not hinder consumption, as a result of consumer price increases attributed to dairy producer price or income improvement.

Proponents of direct payments summarize their advantages as follows:

A. The market price for all milk and its products, as well as the total price received by farmers, would be determined in an open market on the basis of supply and demand. The general market level of prices would be that which consumers would pay and use the entire supply placed on the market. Likewise, the total income to producers would be dependent not only on the amount of the direct payment, but also on the price as determined in the free and open market.

B. Since the market would clear, no storage costs for Government surplus stocks would be incurred, and consumers would have available the commodities at lower prices than under the present purchase program.

C. Variations, differentials, or limitations in the amount of payments offer a means of encouraging, discouraging, or shifting emphasis on production. For example, limits placed on the amount of payments to individual producers can help to channel direct income assistance to the areas of greatest need.

D. The use of a direct-payment program would eliminate any duplication of tax and consumer cost increases, because the income support would not create an increase in consumer price levels.

E. Though there might be no savings in tax costs by the adoption of a program of direct payments instead of the current purchase program, taxpayers would benefit through the lower prices which would result to them as consumers.

F. The use of direct payments to producers for only limited production makes possible a voluntary program in which producer income may be increased but producers would be free to operate their own farms at any level at which they may wish. If they prefer to avoid all Government regulation and sell at the open market price as determined by supply and demand, they are at liberty to do so.

G. With regard to the prevention of the sinking of farm incomes to socially disastrous levels: It would carry the same advantage to farmers as any other type of program, namely, that of maintaining a price level per unit at the predetermined level.

H. Direct payments to producers at a given rate per hundredweight or for a specific number of units would permit a greater degree of flexibility in the form of utilization shifts between various dairy products in response to market prices than is possible with established dollar-and-cent purchase price levels.

I. Direct payments together with open market prices unsupported or supported only moderately at lower than current levels would result in a reduced incentive for foreign producers to take our markets and would discourage imports.

We would suggest that payments be limited to marketings that do not exceed 500,000 pounds per marketing or crop year. This would prevent payment in excessive and large amounts being made to corporate and larger than family-sized enterprises.

CLASS I BASE PROGRAMS

We believe there are portions of the proposed Federal order class I dairy base legislation that should be carefully considered. Class I base programs, as have been suggested in bills before this committee and earlier legislation and bills, in our opinion, could create severe inequities for producers of milk who want to and are entitled to enter fluid markets where such class I base programs might be in effect. We urge that no legislation be put on the books that preclude free entry to and the equitable sharing of fluid area or Federal milk order markets. Producers who meet costly quality requirements and find an outlet or buyer in Federal order areas, must have equal treatment with existing producers on such markets.

If legislation providing for a Federal order class I base plan is enacted, we believe it is imperative that the class I base plan be—

(1) Voted upon by the individual producers entitled to vote in the referendum.

(2) The base period should be designated in the legislation instead of providing an alternative for its determination by the Secretary of Agriculture.

(3) Authority for allocating quotas in emergencies and handicaps to producers should be granted the Secretary or administrator of the program.

Dr. John D. Black in an analysis of base excess plans where used to control production in a book entitled "The Dairy Industry and the AAA"—published by the Brookings Institute in 1935 (Pub. No. 64)—concluded that: "Base excess plans tend to expand production and create innumerable and insurmountable administrative problems."

IMPORT PROTECTION

It is urgently requested that legislation be enacted to protect the dairy business of this country from ever-increasing and unregulated butterfat and milk solids, not fat imports. If imports in quantities equal to past quotas are necessary for good international relations, they should be established on a total butterfat and milk solids nonfat basis, so that the present loopholes are closed. Without such, domestic producer prices increase greatly the pressure for increasing imports. These could destroy an otherwise sound program.

AGRICULTURAL AGREEMENTS ACT OF 1937

While legislation is being considered for amendments to the Agricultural Marketing Agreements Act of 1937, we would strongly recommend that there be—

1. A broader definition for establishing the basis for pricing milk going into fluid uses.

2. Cost of production determinations and parity price computations made and used in determining fluid class I use prices.

3. Determined a sound economic relationship for establishing milk prices in various classes of use under the many Federal milk marketing order areas of the United States.

INCREASED CONSUMPTION PROGRAM

We suggested that consideration be given to legislation to provide for—

(a) Expanded use for Food for Peace programs with long-term commitments. Recipient countries could thus set up distribution machinery for programs of sufficient time to justify their existence.

(b) Expanded use for low-income families and individuals in the United States and possessions of dairy products through food stamp or other methods.

(c) Compulsory after referendum across-the-board financing of promotional, educational and research projects by existing organizations and Government agencies.

Mr. ECKLES. Fine. I would reemphasize that the dairy situation is one, in my opinion, that will not correct itself under existing legislation and that we think that additional legislation is very much needed, both for manufactured producers and fluid area producers.

We feel that if some of the recommendations that we have made in this presentation were put into effect, the results would improve the grade A or fluid area market returns substantially by the fact that class I prices generally are based on a basic formula price, which are the fluid area prices being superimposed on manufactured area prices and returns to farmers.

If the Agricultural Marketing Agreement Act is amended to provide for a class I base plan, we want to reemphasize again that we think it is very important that new producers, producers for manufactured areas, have entree into those markets that are unrestricted and an opportunity to share in the pool proceeds of these fluid markets when they are available to the manufactured producer making the improvements in his farm setup and his facilities to meet the fluid market requirements.

It is my candid opinion that the wish and intent of too many people who are supporting this class I base plan is that they can build a wall around fluid markets by setting up barriers to the entrance of new producers to these Federal order markets, and there are plenty of them there now as a result of the provisions that require plants to deliver certain amounts of milk into a market from their producers' farms every day and maybe even have to haul the stuff back and pay a double haul in order to get it there. And any additional legislation that is enacted to provide for trying to correct that situation is in need of being very, very carefully studied.

We have pending in the five Federal milk orders that we presently have members delivering to amendments at the present time that have been in process for more than a year. And we have proposals being made for the class I base plan by interested parties that I am sure are hopeful that it will tighten up the market rather than give those farmers that are presently all on that market an opportunity to do something about managing their marketings off their farms.

I think the transition from grade B to grade A and the increased marketings under Federal order markets and in fluid markets is as natural as the change from a producer of corn that used the regular old last year's crop as his seed as the trend has been to use hybrids for improving his production that was raised from some specialist in that field.

But I cannot get excited about the fact that the fluid markets in the United States that are under Federal milk orders are drowning themselves in milk when it is basically a result of movement of farmers from the manufactured field into the grade A outlet and improving their price by moving in that direction.

Now, I have been an administrator of Federal milk orders for as much as 15 years in the St. Louis and the Cleveland, Ohio, areas and worked with the Department for several years. I will be candid in saying that we have in the existing legislation a new producer clause that says that a farmer has to serve a 3-month apprenticeship if the Secretary sees fit to put it in there, before he qualifies himself for anything other than the lowest class price and becomes a part of that market.

Now, this is after he has met the grade A requirements, after he has made the investment in bulk tanks and all the other frills that are required. And it was a Solicitor's Office and a Secretary of Agriculture, after that thing had been used in the St. Louis market, at least, where I worked for several years, that made the decision that it was invalid, and therefore it ought to be taken out of all orders and that provision is still in the Agricultural Act of 1937 as amended.

It was a restrictive clause that prevented farmers moving in the fluid area outlets with their milk off of their farms.

Representing over 15,000 farmers in Wisconsin, 30 percent of whom have a chance momentarily at grade A outlets and another 80 percent that would love to have the opportunity to move into these fluid markets, I cannot take any position and think that it is just, other than the fact that if a class I base program is introduced in Federal order areas, let the thing be wide open and give the entering producer equal opportunity to share in the class I bottle proceeds of that market on the same basis that the guy that has happened to have owned a farm in a suburb of a big city that maybe would be worth more as a golf course than it is as a dairy farm and more efficient operation, and not try to give him a preferred position over somebody who happened to have been located at a more distant point.

If the Agricultural Act is going to be amended, I would also suggest that language—

Mr. JOHNSON of Wisconsin. Just a minute, before you go on.

If I understand you, this class I legislation that is going to do this should be amended so—

Mr. ECKLES. I say if the class I provisions or the class I base program or the act is amended, included, be sure that you protect the manufactured producers' opportunity to move to the fluid market or he will be restricted and I think will be illegal immediately and would be invalidated by court action or proceedings.

Mr. JOHNSON of Wisconsin. Have you studied the legislation the Senate committee has sent to the floor of the Senate for action?

Mr. ECKLES. Yes.

Mr. JOHNSON of Wisconsin. Is it fully protected in that legislation?

Mr. ECKLES. I think it comes nearer to being open to entry than the other pieces that were originally drafted; yes.

Mr. JOHNSON of Wisconsin. You don't think it is perfect yet?

Mr. ECKLES. No. I think you ought to be emphatic in your provisions. I think it would be well to consider if the Agricultural Marketing Act is amended, a change that would provide that producers

through referendum could vote and incorporate into orders a program for assessments to provide for promotion advertising and educational funds, and that those votes should be handled on an individual producer basis, rather than a group bloc vote as well as our suggestions on the base programs, if they come to pass.

Again I think, taking care of the manufactured situation would substantially improve the fluid problem as far as income is concerned, and income is the basic problem that the dairy industry is interested in. We think the suggestions we have incorporated here in the form of direct payments for reducing marketings, especially the manufactured field, would turn around and in 2 to 3 years' time reduce the expenditure by two-thirds that is presently being spent for support programs. Because we think you make the inducement and encouragement high enough to a farmer to limit his marketings off of his farm—I am not talking about production; I am talking about marketing—you will find more of them using milk to feed to their young stock, instead of buying vegetable oil and cereal milk replacers, and that you will find them using more milk and dairy products in poultry feeding on their farms, as they did in the past.

Mr. JOHNSON of Wisconsin. Mr. McIntire?

Mr. MCINTIRE. Mr. Eckles, do I understand from your statement that the Pure Milk Products Cooperative is a bargaining organization?

Mr. ECKLES. That is right.

Mr. MCINTIRE. You do not handle——

Mr. ECKLES. We don't own a plant.

Mr. MCINTIRE. On the first page of your statement you say "Our records indicate that our members are producing more milk than they did a year ago, which is an alltime record."

Also, above that, it is indicated that about one-half of your members are marketing in market order areas, and about one-half are marketing outside.

Mr. ECKLES. That is correct.

Mr. MCINTIRE. Would you have an observation as to where the increase has come? Has it been uniformly with those marketing within the marketing order area and——

Mr. ECKLES. Candidly, the increase has been a little greater in the fluid areas than it has in the manufactured producers on an average, largely as a result of moving to bulk tank-type of operations and new methods of handling the milking processes and the herd in the farm.

Mr. MCINTIRE. Are these market order territories that are serviced by your members, each of them using a blend price in their price to the farmers?

Mr. ECKLES. No; they have all used a base surplus plant in the past and within the month, the Chicago area and the Northeast, which is consign areas, have both had eliminated from their programs the base excess plans, because we felt that it was creating a base raise, we call it, of farmers building bases in the fall to increase their marketings the following year that would be giving the higher yield return on base milk in the subsequent spring.

Mr. MCINTIRE. When you say base surplus or base excess, we are in fact talking about the same type of machinery as the so-called class I base price proposal?

Mr. ECKLES. For practical purposes, yes. Except I think that some of the folks who are or were, let's put it this way, terribly enthusiastic about the class I base program originally were thinking in terms of a quota program that was tougher than anything that the Government has ever put in in the way of a base surplus plan under a Federal milk order. But basically, their principles are the same.

Mr. McINTIRE. I don't want to be repetitious with you. I understand you to say that only recently, having had this as an experience over a number of years, two of the order territories in which your members supply milk have changed to a blend price?

Mr. ECKLES. Yes; and another adjacent one, the Rock River Valley area in northern Illinois has changed and eliminated the base surplus plan from their provisions, too.

Mr. McINTIRE. The increase in production that you refer to here on page 1, while you say it has been some more in the order territory for producers marketing in order territories, there has not been a conspicuous difference. Or is it—

Mr. ECKLES. No; it hasn't in our case. I think the percentage growth wouldn't be more than 4 or 5 percentage points difference between the manufactured producer and the grade A, because the grade B producers are also increasing in substantial amounts the marketings off of their farms.

Mr. McINTIRE. When you use the terms "grade A" and "grade B," you are speaking similarly to what others might express as class I and lower classes?

You are distinguishing between fluid milk and milk for milk market—

Mr. ECKLES. For manufactured purposes; yes.

Mr. McINTIRE. Not as to quality of milk? This is simply for use?

Mr. ECKLES. That is right. In Wisconsin, we have what they call a grade B law for manufactured producers and manufactured producers is what you would term a "B" producer for bottled product qualification in other areas.

Mr. McINTIRE. Thank you, Mr. Chairman.

Mr. JOHNSON of Wisconsin. Any further questions?

(No response.)

Mr. JOHNSON of Wisconsin. If not, I want to thank you, Mr. Eckles.

Mr. ECKLES. Well, I want to thank the committee for the time and the opportunity to present our views and hope that somewhere down the line we have occasion to help you develop legislation that will improve this dairy farm income.

Thank you.

Mr. JOHNSON of Wisconsin. Is Mr. David L. Middleton in the room?

We have the United Milk Producers Cooperative Association.

**STATEMENT OF DAVID L. MIDDLETON, GENERAL MANAGER,
UNITED MILK PRODUCERS COOPERATIVE ASSOCIATION OF NEW
JERSEY, TRENTON, N.J.**

Mr. MIDDLETON. I would like to take this opportunity to thank the committee for allowing the United to be represented here today.

First, I would like to point out that the United Milk Producers Cooperative Association of New Jersey has been in favor of some sort

of supply-management proposal for many years and we have gone on record at our annual meetings favoring supply-management.

My name is David L. Middleton. I reside at 19 Oakland Avenue, Somerset, N.J. I am general manager of the United Milk Producers Cooperative Association of New Jersey, located at 168 West State Street, Trenton, N.J.

This statement is presented on behalf of the membership of the United Milk Producers Cooperative Association of New Jersey.

New Jersey, the Garden State, has some 14 million acres, or 29 percent of the total land area of the State devoted to a diversified agricultural industry. Dairy farming is an important segment of the agricultural industry in New Jersey.

There are approximately 2,500 milk producers within our State. These dairymen produce and market annually more than 1.1 billion pounds of milk. This number of milk producers has dropped approximately 1,000 in the last 5 years.

The drop in the number of milk producers has not affected the total production in Jersey. In fact, during January, February, and June of this year, we produced more milk in New Jersey than we ever had in any of those 3 months in previous times.

The farm value of these marketings exceed \$59 million annually. Returns from the marketing of milk have been the most stable source of farm income in New Jersey.

Milk producers in New Jersey have a total investment in land, buildings, machinery, and livestock exceeding \$250 million. This investment has enabled milk producers within our State to produce a high quality milk efficiently and economically. Dairymen in New Jersey have, for many years, been able to obtain more milk per cow from their herds than have dairymen in other States.

This is shown in the following comparison.

Milk production per cow, selected States, average 1950-59, 1960, 1961

[In pounds]

	1950-59	1960	1961
California.....	8,464	9,800	10,130
Arizona.....	7,332	9,220	9,500
New Jersey.....	7,863	9,010	9,110
New York.....	7,190	8,150	8,440
Wisconsin.....	7,346	8,270	8,410
Pennsylvania.....	6,738	7,700	7,820

I might also point out in this regard that New Jersey is the second largest dairy State in the Union, based on total production in the State in relation to total acreage devoted to agriculture.

Although the investment made by New Jersey milk producers has resulted in efficient production, it has unfortunately tended to immobilize these dairymen. Unlike other segments of agriculture, dairymen cannot readily shift from milk production to some other form of agricultural endeavor.

This would be especially so in the dairy counties in New Jersey.

Milk producers within our State have not benefited from the increase in efficiency. On the contrary, between 1959 and 1962, the average price received by dairymen in New Jersey has declined by nearly 60 cents per hundredweight. It is expected that the average

prices received by New Jersey dairymen during 1963 will be reduced an additional 15 cents per hundredweight. (See charts I, II, III.)

Approximately 75 percent of the milk marketed by New Jersey producers is delivered to handlers regulated by New York-New Jersey Federal order. Between 1959 and 1962, receipts of milk from the producers within the market increased 13.5 percent while the annual percentage of class I sales in relation to total receipts declined from 55.1 percent in 1959 to 48.7 percent in 1962.

The class I pricing provisions of order 2 have reacted affirmatively to the increased producer receipts within our marketing area.

In 1962, the New York-New Jersey class I price was 34 cents below the class I price paid in 1957. It is estimated that the class I price will decline 11 cents during 1963. This data is shown below:

Year and average class I price

1957-----	\$5.64	1961-----	\$5.32
1958-----	5.59	1962-----	5.30
1959-----	5.64	1963 (estimated)-----	5.19
1960-----	5.55		

The supply-demand adjustment provisions of order 2 have contributed substantially to the decline in class I prices. The change in the class I prices brought forth by this supply-demand adjustment provision of order 2 is shown in table I by months.

Since December 1959, the supply-demand factor has ranged from 0.01 to 0.45 cents per hundredweight.

The reduction in the class I price has been reflected in the blend price received by producers. As stated earlier, New Jersey order 2 producers are now receiving \$0.58 per hundredweight less than they did in the 12-month period commencing in August 1, 1957.

Mr. JOHNSON of Wisconsin. Could I ask a question at that point? Is that 58 cents per hundredweight, what are you getting for class I milk—

Mr. MIDDLETON. No.

That is, the average price received, Mr. Chairman, by all producers has declined by 58 cents.

Mr. JOHNSON of Wisconsin. Is that because you are producing more manufactured milk?

Mr. MIDDLETON. It is because we have had an increase in production, in the total receipts of milk within the order.

Mr. JOHNSON of Wisconsin. More of it has to go into manufactured milk, for which they receive a less price, so you get 58-cent less blend price?

Mr. MIDDLETON. So our blend price is reduced.

Mr. OLSON. The formula for the class I price is also based on the price of the surplus milk; is that not so?

Is this what has brought the class I price down?

Mr. MIDDLETON. No. The class I price is based primarily, and the biggest change in the class I price has been brought about, by this relationship between supply and demand.

Our formula provides that the price shall move in relationship to the supply and demand, and when your supply goes up, the price comes down and this should cut your supply. This, I think, is the theory that I will touch on later.

But in our market, it has reduced the price considerably, but at the same time our production has continued to increase.

Mr. JOHNSON of Wisconsin. May I ask one other question?

Has the consumer been buying his milk cheaper because of this low price?

Mr. MIDDLETON. Well, in New Jersey, I would say the consumer probably now is paying more for milk than he paid in 1937.

Although the price received for milk has declined drastically the total production of milk within our State has remained relatively stable. Milk producers caught in the cost-price squeeze have added production units and have increased production per unit.

The increased efficiency and the resulting increased production now threatens to overproduce dairy farmers into bankruptcy.

Perhaps the age-old theory that production is guided by price is no longer valid. The recent pattern of increased production, associated with declining prices, suggests that milk producers have been forced by economic necessity to ignore the theory that a decline in price will bring forth less production.

This, I think—a good example of this is the New York-New Jersey milk marketing area.

The problem confronting milk producers is how to manage their productive capacity so as to obtain maximum economic returns. It has become obvious that milk producers cannot achieve maximum returns under the present conditions.

Other segments of our economy have certainly achieved a better balance between supply and demand than have milk producers. Industries other than the milk-producing industry have been able to tailor output more closely to the demand for products. Industrial surplus appears in the form of their unemployed workers and idle industrial capacity. While this may be undesirable, it does enable industry to achieve a balance between supply and demand.

The dairy price-support program and the Federal order program must be amended so that milk producers can manage their productive capacity in a manner that will put them on par, in terms of net income, with other segments of our economy. The amended dairy program should provide the following:

- (1) An opportunity for milk producers to obtain a return at least equal to the cost of production plus a reasonable return for the employment of land, labor, and capital.

- (2) A reduction in the dairy surpluses and the Government cost associated with such surpluses.

- (3) Maintain prices paid by consumers for fluid milk at a level comparable to prices of other food items in the housewife's market basket.

- (4) Continued progress toward more efficient production and marketing.

- (5) Permit individual producers to maintain their production in line with market requirements for fluid milk without having their prices reduced by the present surplus or by increased production of other producers.

The United Milk Producers Cooperative Association of New Jersey proposes that the Agricultural Marketing Agreement Act of 1937, as amended, be further amended. Specifically, our organization desires legislation that would give producers, supplying a given market, the

opportunity to adopt measures designed to bring forth a better balance between the supply of, and the demand for, milk.

It is our belief that the needs of New Jersey producers would be best served by amending the Agricultural Marketing Agreement Act of 1937 to provide the opportunity for local markets to establish programs designed to limit production.

I would like to thank you for being allowed to present this testimony to your committee.

Mr. McINTIRE. Mr. Chairman—

Mr. JOHNSON of Wisconsin. Mr. McIntire.

Mr. McINTIRE. Mr. Middleton, is the organization which you are general manager of, United Milk Producers Cooperative Association, a marketing or a bargaining organization?

Mr. MIDDLETON. Well, we have been a bargaining organization throughout most of the time that we were in existence. However, right now we are marketing the milk of our members.

Mr. McINTIRE. You have plants in—

Mr. MIDDLETON. We do not have plants; we have bulk tank routes. Our markets are fairly close to our producers and we can pick the milk up in a bulk tank truck and deliver it directly from the farm to the handler's plant.

Mr. McINTIRE. And you are marketing only to the extent of providing transportation service?

Mr. MIDDLETON. Well, no; we are marketing to the extent that we sign a contract with a dealer to buy X pounds of milk per month and we agree to deliver that to him directly from our farms.

For this, we do the transportation, we do the quality work, and we obtain a service charge from the handler. We do not operate a plant.

Mr. McINTIRE. Under the marketing order, are you the party responsible for a payment to the farmer for his milk?

Mr. MIDDLETON. Yes. In this instance, where we are marketing our members' milk.

Mr. McINTIRE. I see.

In your statement, no specific reference is made to the legislation which you support. Am I to assume that you support all the bills before the committee, or—

Mr. MIDDLETON. I would say this: I think we primarily are interested in the bills that Senator Proxmire presented and I think it is now on the floor of the Senate.

We certainly would not oppose incentive payments. However, we do not want to see this legislation delayed because of the incentive payments. We would rather get the dairymen's base program through and then if we have to talk about incentive programs, talk about them at another time. We are mostly interested in getting this dairymen's base program through so we can start this program in our markets. But we certainly would not oppose the incentive payments.

Mr. McINTIRE. Thank you.

Mr. JOHNSON of Wisconsin. Any further questions?

I take it, from your statement you are interested in a class I base and if you get that through you have no objection to something for the manufactured milk, but what you want now is something for class I milk; is that correct?

Mr. MIDDLETON. This is our main problem in New Jersey. Our market—our prices have been eroded by increased production.

Mr. JOHNSON of Wisconsin. As I go over your charts here, is that your blend price that you quote all the way through? Are you getting \$5.17 now?

Mr. MIDDLETON. You mean in table I, sir?

Mr. JOHNSON of Wisconsin. Yes.

Mr. MIDDLETON. No; this is the class I price in the first column. It is the base price that we receive, \$5.20, which is built into the order. That price is adjusted then to reflect the movements of the wholesale commodity index and that adjustment is shown in column 1.

Mr. JOHNSON of Wisconsin. The base price, that is the class I price, and then this second column, does that represent your overall, add the manufactured milk—

Mr. MIDDLETON. No. This whole table refers only to class I prices. The first column is the adjustment for the wholesale commodity index on our base class I price. The second column is the effect, or is the price that is obtained after you apply the supply-demand adjustment to this price in column 1.

And then the third column indicates the amount of cents by which the supply-demand adjusted, either reduced or increased our class I price.

Mr. JOHNSON of Wisconsin. Well, what is your blend price now in New Jersey?

Or what was it?

Mr. MIDDLETON. In August 1963, the blend price in the 201- to 210-mile zone was \$4.23.

Mr. JOHNSON of Wisconsin. What was it in the month of—the last month you show here on your chart, May 1963?

Mr. MIDDLETON. Just offhand, I would say it was around \$3.63 in the 201- to 210-mile zone.

Mr. JOHNSON of Wisconsin. I didn't get that.

Mr. MIDDLETON. \$3.63.

That was the blend price in the 201- to 210-mile zone.

Mr. JOHNSON of Wisconsin. Is that for 3.5 milk?

Mr. MIDDLETON. Excuse me; for May 1963, it was \$3.59 for 3.5 milk at the 201- to 210-mile zone.

Mr. JOHNSON of Wisconsin. Any further questions?

Mr. Beermann?

Mr. BEERMANN. Mr. Middleton, when was the United Milk Producers Cooperative Association of New Jersey formed?

Mr. MIDDLETON. 1933.

Mr. BEERMANN. 1933. And what is its main function now?

Mr. MIDDLETON. To represent dairy farmers shipping into the New Jersey market?

Mr. BEERMANN. Then you own trucks and pick up the milk and deliver it?

Mr. MIDDLETON. We do not own any trucks. We operate on a contract with our haulers.

Mr. BEERMANN. I see.

What is the basis for contracting with the hauler?

Mr. MIDDLETON. We go out and take bids to find out who is going to haul our milk cheapest and select the better bid and contract with him to haul our milk.

Mr. BEERMANN. If you get the supply-management program that is outlined in these bills, do you think the contracts you have, that you

have formed with these haulers, will be regulated by Government and supply-management the same as the recommendations that are contained in the bills?

Mr. MIDDLETON. I don't see that there is any need to even bring the hauler into it. All we are asking for is that producers in the New York-New Jersey market be given an opportunity to discuss and vote into the order if desired a program which would allow us to limit our production so that we are not continuously penalizing ourselves for overproduction and efficiency of production.

Mr. BEERMANN. Well, your organization operates because there is a demand for your services and you are supplying that demand?

Mr. MIDDLETON. That demand will still be there, regardless of whether this act is passed.

Mr. BEERMANN. In this area, it wouldn't hold true to your statement on page 4, "Perhaps the age-old theory that production is guided by price is no longer valid."

You just got through stating that you negotiated for the cheapest price and the best service.

Mr. MIDDLETON. I do. It is to my economic welfare to do that, isn't it, in regard to hauling my milk? Because every cent I can save on transportation I can return to producers and every cent that I have to pay more for transportation, it means I have to take away a cent from my producers.

Mr. BEERMANN. Very fine.

Mr. DUNCAN. I heard you say you wanted a milk marketing order with provisions that will prevent you from penalizing yourself for efficiency and surplus production. Is that what you just said?

Mr. MIDDLETON. True.

Mr. DUNCAN. Why are you penalizing yourself?

Mr. MIDDLETON. Every time I increase production, my price goes down.

Mr. DUNCAN. Why do you increase production?

Mr. MIDDLETON. I increase my production because my total cost is going up and if I want to keep my income up with my total costs, I have only one alternative, to up the production of milk.

Mr. DUNCAN. Is each producer's share of the market determined by his share of this production?

Mr. MIDDLETON. That isn't true at the present, no.

Mr. DUNCAN. It is not true at the present time?

Mr. MIDDLETON. No.

Mr. DUNCAN. So that he does not have to overproduce or produce in order to share in your grade A market?

Mr. MIDDLETON. It isn't a matter of sharing in the grade A market. Our blend price is on the share of the milk in the market. So if one producer cuts back production, it has a very little effect on the market, whereas if 40,000 other producers increased production, it has a very big effect and it will affect the fellow who cut back production as much as it will affect the fellow who doesn't cut back production.

Mr. DUNCAN. There are no quotas in New York?

Mr. MIDDLETON. No; there are not. In New York-New Jersey, we did it on an excess plane for many years, which the producers in New Jersey were very happy with.

Mr. JOHNSON of Wisconsin. I think you said the increase in milk is coming because the farmer has to have so much money, so he keeps increasing his production.

Now, if you get this class I plan adopted where the farmer gets the high price for his class I milk and the surplus milk adjusts the price to a lower price, if you say he has to have so much money if he just produces class I milk, isn't he going to be all the way from \$5,000 to \$6,000 to \$7,000 short? He will produce the same amount of milk and get the same amount of money?

Mr. MIDDLETON. No; if we can instigate a program of this sort—just suppose for a minute that production was reduced and then, instead of having 50 percent of our milk priced at the class I price, and maybe 40 percent of it priced at the class III price, maybe we could have 60 percent priced at the class I price and only 30 percent at the class III price. And the difference would give us a higher blend price and the blend price is the price which is received by farmers—not this class I price; the blend price. And he makes his decisions primarily on that price, the price he actually receives in his paycheck every month.

So if we could cut down the supply, and instead of getting 50 percent of the class I we got 60 or 65 percent, we would have yearly raised that blend price.

Mr. JOHNSON of Wisconsin. He is still going to be short money, though, isn't he?

Mr. MIDDLETON. He may not be short money and he may in that way tend to eliminate some of his poorer producers and slightly reduce cost.

Mr. JOHNSON of Wisconsin. Take a market, for instance, where you have—I think it is true that it is a matter of record that about 50 percent is surplus and 50 percent goes into class I in the New York market. If you just produce the amount that you need for your class I, would not your income be cut way down?

Mr. MIDDLETON. We might take some drop in income, but I don't think so. It depends on how much cut in production we get.

Mr. JOHNSON of Wisconsin. You either have to reduce the price of class I or keep producing surplus. You would just get two prices: the high price for class I and the lower price for the milk for manufacturing purposes.

Mr. MIDDLETON. I don't think we would end up with a cut in income. Another thing I think it would do, though, which it doesn't now, is to show the farmer how much money he should get for this class I milk. It will show him also that for his excess milk, he can't possibly produce it at \$3. So there won't be that incentive. Now he is getting maybe \$4 for all his milk. So he does have some incentive to continue to produce the surplus. But if we had this program in, maybe that incentive would be eliminated. And I don't think it would cut income by any great extent.

Mr. DUNCAN. You are operating under a marketing order, are you not?

Mr. MIDDLETON. One-half of the State is in a Federal order and the other half is not.

Mr. DUNCAN. Well, now, as to that that is marketed within the marketing order area, are you operating under a free enterprise system where you would expect the laws of supply and demand to operate?

In other words, you say that you wonder if the supply and demand theory is any longer valid. Are you operating there under an economy where you could expect it to operate?

Mr. MIDDLETON. Well, I think it operates probably in north Jersey to the extent that it does in any other Federal order. Certainly, supply has some effect on price and so does demand.

Mr. DUNCAN. If I understand your system, you have no quotas and your price is tied into the wholesale price index, so that as the demand goes down, the price goes down.

Mr. MIDDLETON. This is one factor.

Mr. DUNCAN. Is that the way you operate, or isn't it?

Mr. MIDDLETON. That is one factor. That is the No. 1 factor.

Then we have another one, which we call the supply-demand adjustment.

Mr. DUNCAN. That is what I am getting at. Is this supply-demand adjustment, which is a new concept to me, I think it is that the base price declines as the wholesale price declines.

Mr. MIDDLETON. The base price is adjusted first for the wholesale commodity index. Then there is another adjustment over and above that in regard to the supply-demand factor conditions operating within this order. As the supply of milk increases, this factor has a tendency to reduce our class I price.

Since December 1959, it has reduced it every single month and the reduction that this factor alone has brought forth has been from 1 to 45 cents.

Mr. DUNCAN. I think I understand what you have said now. Who shares in this class I market? Anybody?

If I want to go up there and buy some cows—

Mr. MIDDLETON. Anybody who is a pool producer. Anybody who ships milk to a regulated handler.

Mr. DUNCAN. How do I get to ship to a regulated handler?

Mr. MIDDLETON. You just go and make arrangements. If he will buy your milk, you are a pool producer.

Mr. DUNCAN. There is no legal restrictions

Mr. MIDDLETON. Not as long as you can find a pool handler to buy your milk.

Mr. DUNCAN. Well, answer my question. There is no restriction in the law which prohibits anybody from buying milk from me or prevents me from selling it?

Mr. MIDDLETON. No; I don't think there is a restriction.

Mr. DUNCAN. You may have some contractual arrangements with him which will make it difficult for me to get started.

Mr. MIDDLETON. I or no other one cooperative control the whole New York-New Jersey market, so that is no problem.

Mr. DUNCAN. I understand that, but there is no legal restriction, no quotas, so I can share in this wholesale market the same as anybody else?

Mr. MIDDLETON. Today you could and we have producers in the State of Pennsylvania and the State of New Jersey who are not covered by the order who have moved in.

Part of our decreased receipts have been due to producers in other areas who have lost their markets in other areas and desiring a market for their milk, have moved into order 2.

That is part of the problem with order 2 today, that we have been allowing producers to come into our market and when they come in, they reduce our total receipts, without bringing in any class I sales.

Mr. DUNCAN. One more question. Is there any difference in the production or rate of increase of production in the portion of New Jersey that operates under the marketing order and the portion that does not?

Mr. MIDDLETON. No.

Mr. DUNCAN. It is fairly stable?

Mr. MIDDLETON. Fairly stable.

Mr. OLSON. Mr. Middleton, I notice that November of 1959 is the last time that the effect of the supply-demand adjustment was plus for you. From 2 cents, it has gone to minus 40.

Mr. MIDDLETON. That is right.

Mr. OLSON. If I understand correctly, the supply-demand formula would still work to price the class I milk in your market even if you adopted a class I base plan; is that right?

Mr. MIDDLETON. Well, it could or it could not, depending on what was done at the hearing. I would imagine it could be left alone. Some people have said with this, we may not need it, but I think this is the first thing that would be decided at the hearing as a result of the hearing.

Mr. OLSON. Well, if it were left on its present basis, then your class I price would still remain for the month of May of 1963, \$5.17 for that class I milk that you produce?

Mr. MIDDLETON. Correct.

Mr. OLSON. Now, the manufactured support price of milk is \$3.14. That is the support price, 75 percent of parity. You would come out the same, with the same amount of milk being produced, even under class I base plan, but you would separate it to this point, that the man who was producing surplus milk at \$3.14, would see that it is uneconomical and if they would reduce this, they could pick up 40 cents; right?

Mr. MIDDLETON. Right.

Mr. OLSON. Is this the way it would work?

Mr. MIDDLETON. I don't know about the 40 cents, but at least the producer would be able to see that his surplus milk was worth only \$3.14.

Mr. OLSON. And it would be obvious to him that if he reduced that production that was uneconomical, he could correct the effect of the supply-demand formula and pick this up—

Mr. MIDDLETON. Right. By reducing these total receipts, he could make these pluses instead of minuses.

Mr. OLSON. I think this is about as fair an offer as you can make to producers.

Mr. MIDDLETON. I think so, too. I think it is as much as farmers deserve, to have as much as businessmen have.

Mr. OLSON. It is voluntary, whether they accept the plan or not. After they accept the plan, there is no difference in the amount of income they have, now or after they accept it, but the evidence would be there that if they did reduce the manufactured milk which was

uneconomical to produce, they could again go back and correct the supply-demand price?

Mr. MIDDLETON. They would have a better opportunity to realize an increase in price.

Mr. OLSON. Thank you.

Mr. JOHNSON of Wisconsin. Thank you, Mr. Middleton.

Mr. MIDDLETON. Thank you.

(The attachments to prepared statement of David L. Middleton follow:)

TABLE I.—Order No. 2 class I prices after the adjustment for movement of wholesale commodity index, class I prices after supply demand adjustment and difference, October 1957 to May 1963, by months

Year	Class I price adjusted to reflect movement of wholesale Commodity Index	Class I price after supply demand adjustment	Effect of supply demand adjustment	Year	Class I price adjusted to reflect movement of wholesale Commodity Index	Class I price after supply demand adjustment	Effect of supply demand adjustment
1957				1960—Cont.			
October.....	\$5.56	\$5.67	+0.11	August.....	\$5.61	\$5.55	-0.06
November.....	5.54	5.71	+ .17	September.....	5.62	5.54	-.08
December.....	5.53	5.69	+ .16	October.....	5.60	5.42	-.18
1958				November.....	5.60	5.39	-.21
January.....	5.54	5.54	-----	December.....	5.62	5.38	-.24
February.....	5.56	5.52	-.04	1961			
March.....	5.57	5.54	-.03	January.....	5.62	5.35	-.27
April.....	5.58	5.60	+ .02	February.....	5.61	5.32	-.29
May.....	5.62	5.69	+ .07	March.....	5.63	5.36	-.27
June.....	5.61	5.66	+ .05	April.....	5.64	5.40	-.24
July.....	5.61	5.67	+ .06	May.....	5.63	5.37	-.26
August.....	5.60	5.64	+ .04	June.....	5.61	5.35	-.26
September.....	5.60	5.58	-.02	July.....	5.59	5.36	-.23
October.....	5.60	5.55	-.05	August.....	5.55	5.29	-.26
November.....	5.60	5.54	-.06	September.....	5.57	5.26	-.31
December.....	5.59	5.53	-.06	October.....	5.59	5.25	-.34
1959				November.....	5.58	5.27	-.31
January.....	5.60	5.54	-.06	December.....	5.57	5.25	-.32
February.....	5.60	5.59	-.01	1962			
March.....	5.61	5.64	+ .03	January.....	5.58	5.27	-.31
April.....	5.61	5.60	-.01	February.....	5.60	5.31	-.29
May.....	5.62	5.60	-.02	March.....	5.62	5.28	-.34
June.....	5.64	5.67	+ .03	April.....	5.63	5.28	-.35
July.....	5.63	5.72	+ .09	May.....	5.62	5.29	-.34
August.....	5.62	5.70	+ .08	June.....	5.60	5.28	-.32
September.....	5.61	5.68	+ .07	July.....	5.59	5.29	-.30
October.....	5.60	5.70	+ .10	August.....	5.58	5.31	-.27
November.....	5.62	5.64	+ .02	September.....	5.60	5.36	-.24
December.....	5.60	5.58	-.02	October.....	5.61	5.36	-.25
1960				November.....	5.64	5.28	-.37
January.....	5.58	5.57	-.01	December.....	5.62	5.25	-.37
February.....	5.58	5.53	-.05	1963			
March.....	5.61	5.53	-.08	January.....	5.62	5.22	-.40
April.....	5.61	5.48	-.13	February.....	5.60	5.15	-.45
May.....	5.64	5.52	-.12	March.....	5.61	5.16	-.45
June.....	5.64	5.54	-.10	April.....	5.59	5.19	-.40
July.....	5.62	5.50	-.12	May.....	5.57	5.17	-.40

Price, per
cwt. \$

6.20

CHART I

AVERAGE PRICE RECEIVED BY NORTH JERSEY PRODUCERS
AUGUST, 1957 -- DECEMBER, 1962

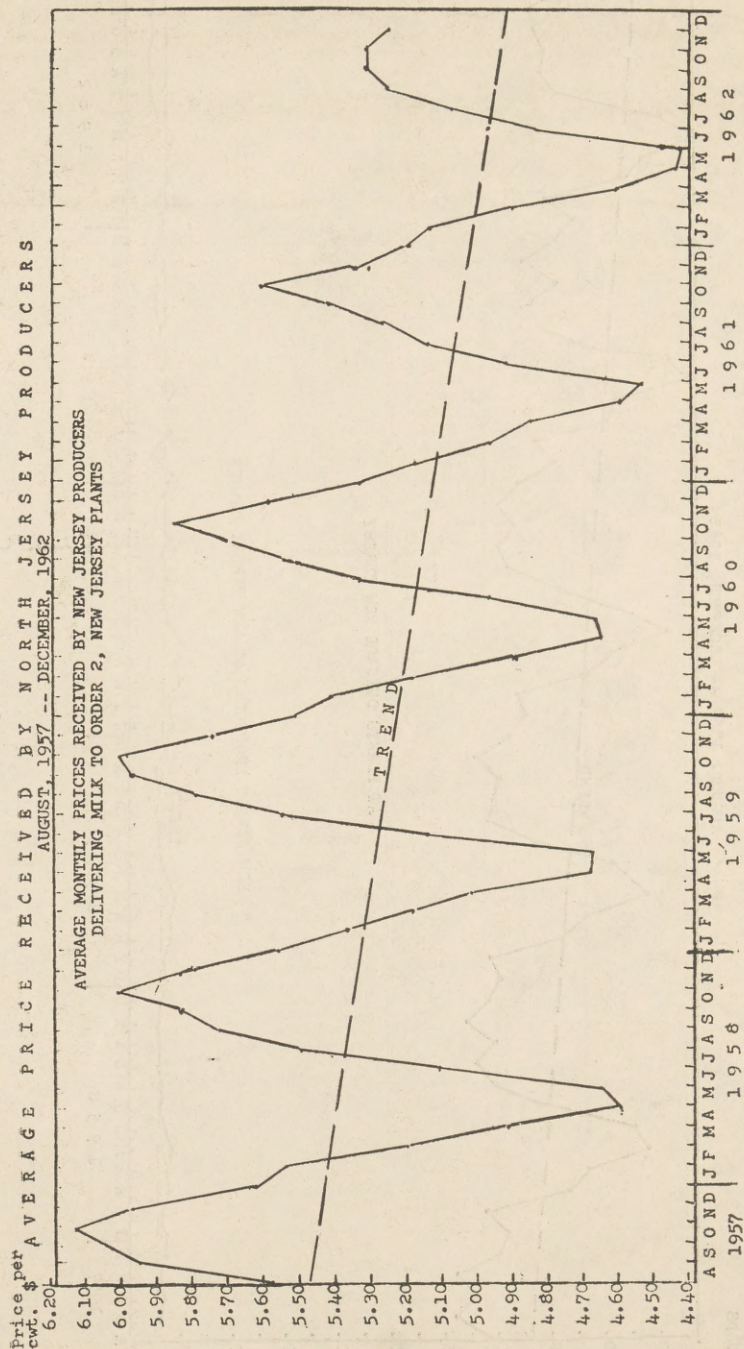


CHART II
ORDER. 2. POOL RECEIPTS FROM PRODUCERS
AUGUST, 1957 -- DECEMBER, 1962

MILLIONS
POUNDS

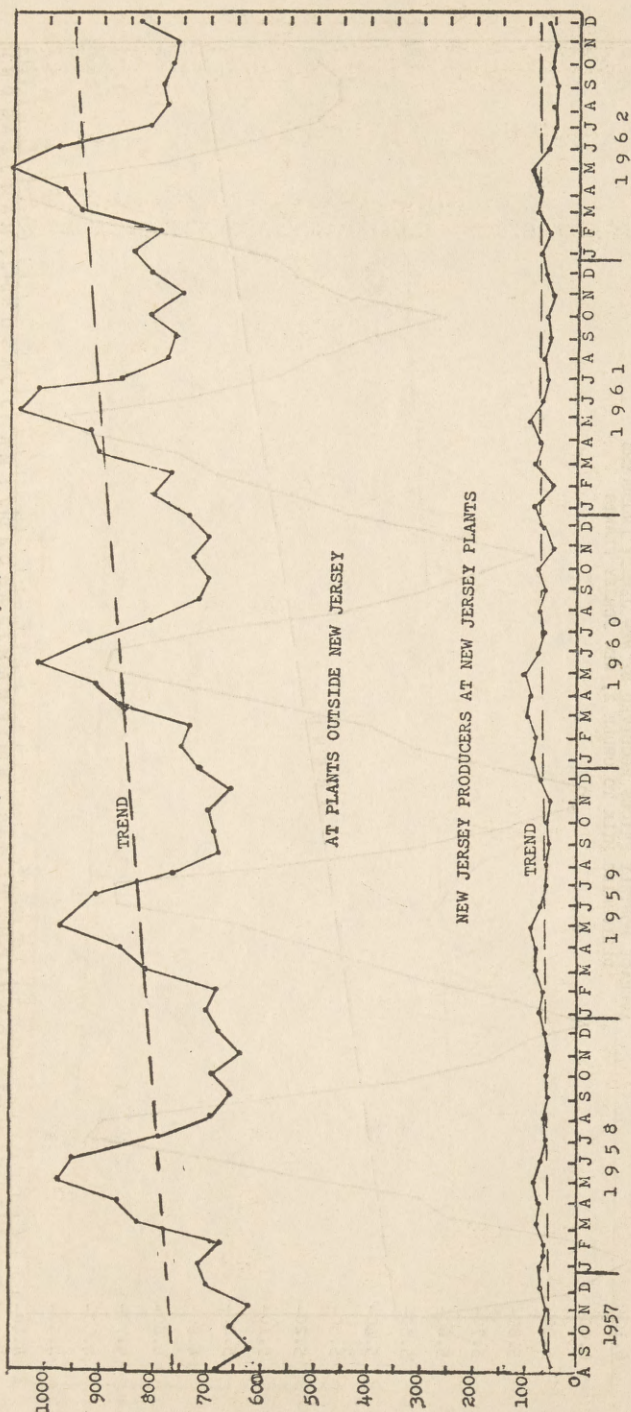
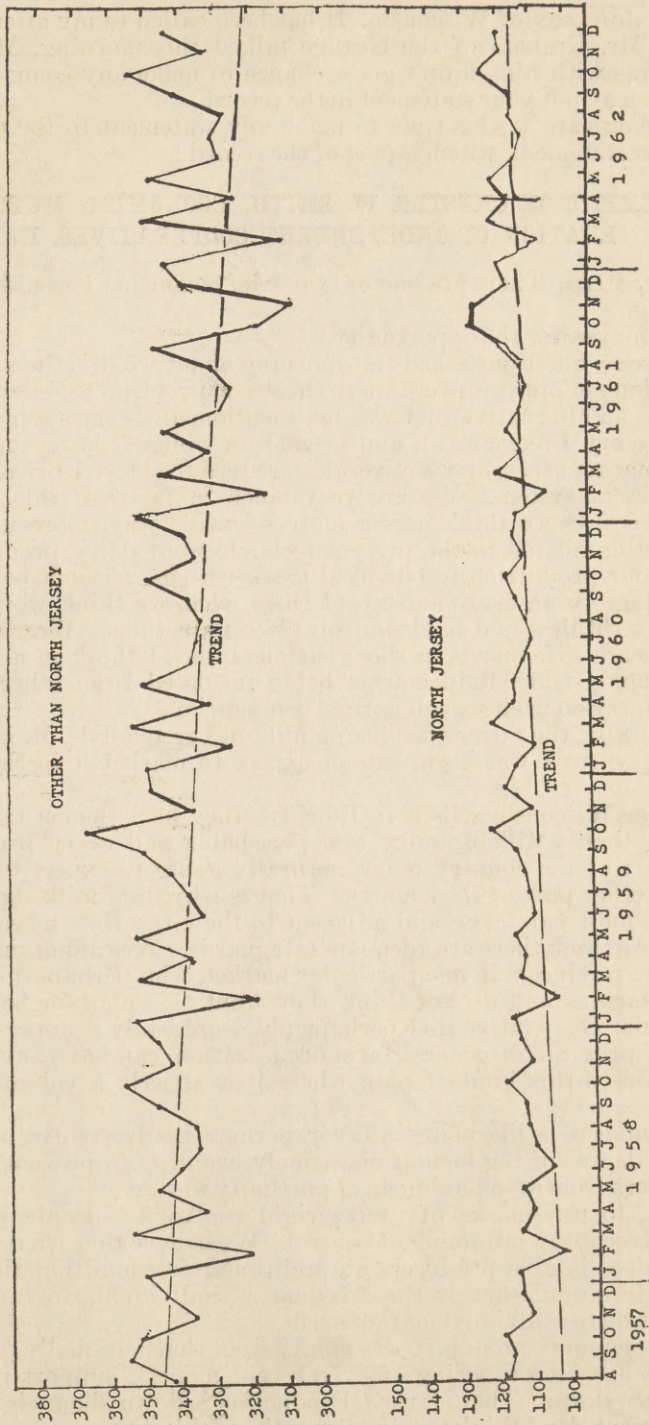


CHART III
ORDER 2, CLASS 1-A SALES
AUGUST, 1957 -- DECEMBER, 1962



Mr. JOHNSON of Wisconsin. It has been called to my attention that when Mr. Graham of the Grange talked this morning, Mr. Smith, who was with him, didn't get a chance to make any comment.

You may put your statement in the record.

Do you care at this time to make any statement to the committee on your statement, which is part of the record?

STATEMENT OF CHESTER W. SMITH, ECONOMIST, MUTUAL FEDERATION OF INDEPENDENT COOPERATIVES, INC.

Mr. SMITH. There are one or two brief comments I would not mind making.

Thank you for the opportunity.

On some questions asked this morning about what is the alternative if we don't adopt this program to this basic problem in Federal orders, there is an alternative that was not mentioned, a very simple one.

Secretary Freeman can and he may be obliged, in my opinion, in some market areas, maybe several, to reduce the class I price. That is the present system. We are very much in favor of this two-price plan, because we think it is a more scientific way, more up to date and better related to the present technology of dairy production, to tailor our production to our local market needs, without being a disadvantage to anybody and avoid these what we think would be absolutely ruthless and bankrupting price reductions. We think there are enough safeguards in these various bills—I think in all of these bills—against any fluid market being insulated from other parts of the country on what we call normal competition.

Naturally, the farmer producing milk in Presque Isle, Maine, for instance, where I was born, cannot expect to market it in San Diego, Calif.

Upper Wisconsin sells it in Florida—they have demonstrated they can do that. Milk is bulky and perishable and every producer in any part of the country is not naturally going to expect to compete in any other part of the country. That is why fluid milk supplies are for the most part close and adjacent to the cities they serve.

But we think there are adequate safeguards. We cannot understand why the producers in one particular market, who perhaps do not have much surplus and do not think they want this plan, or belong to a particular cooperative that perhaps philosophically is opposed to this type of program or general farm organization, can have any real fair objection to this kind of plan where it is strictly a voluntary local option.

It sounds to us like being in favor, perhaps inadvertently, of an even higher degree of regimentation, namely, wanting to prevent the local producers from even having an opportunity to vote.

That, to us, smacks of pretty rigid control by people who have long advocated a minimum of control. We believe that what this plan really does is give producers an additional freedom that they never had before, and that is the freedom as individuals to tailor their production to individual market needs.

Just one more point. It was emphasized that nationally, milk production has been tapering off. In recent months, support purchases have been down. That is true. Production is down about eight-tenths of 1 percent, for I think the first 7 months of this year.

Support price purchases are off, collectively, about 5 percent. But that is just from a year ago.

But we have in the New York milkshed where I come from, 11½ billion pounds of milk a year in our pool. In 1959, we had 10 billion. Some definitions of "normal" indicate that for the present sales we have, we do not need more than 8 billion. At least this additional 11½ billion that has been produced just since 1959 is extra milk that was not needed; the producers produced because they were under this cost-price squeeze, coupled with the blended price system that they could not get away from, and we really believe that to give us an opportunity to work out a plan like this in our market so that we can get started in working off our surplus in an orderly manner, we can reduce just in our one market—it is true it is the biggest market in the country, but nevertheless, there is a billion and a half pounds of milk a year there that is probably 30 percent of the total national surplus as measured by the amount of stuff purchased for price support.

We cannot see but what, if we can be allowed to work that off in an orderly manner, it is not only going to help us individually, but it will help all dairy farmers in the country indirectly. And so long as there are plenty of safeguards here so that there is free opportunity to compete in any market, we cannot see why what we want to do is going to hurt anybody else anywhere.

Mr. McINTIRE. Mr. Smith, what are the receipts now coming into the New York-New Jersey milkshed from outside all of the geographic area of the milkshed as far as production is concerned?

Mr. SMITH. There aren't any.

Mr. McINTIRE. There are not any?

Mr. SMITH. No.

Mr. McINTIRE. All of this milk that you made reference to is produced within the area?

Mr. SMITH. It is produced primarily in New York State, Pennsylvania, and New Jersey.

There is just a very, very little from Vermont, a little from Delaware, Maryland, and I guess there are a few producers in West Virginia.

Mr. McINTIRE. This question has not been asked, I do not think, in these hearings and it is not very clear to me as to the orders and the manner in which they are administered. As you are thinking of this legislation, particularly the class I base provision, do you understand and is it your thought that this would be administered by the administrator of the market order; or through the ASC committees of the Department of Agriculture?

Mr. SMITH. The individual base plan, I understand, would be administered by the present market administrator as just part of his job of general administration of the order.

Mr. McINTIRE. The other provisions in some of these bills for payments for production management would probably be administered by ASC?

Mr. SMITH. The bills do not spell out in great detail the administrative procedure, but I would anticipate that they would be administered by other people, but in cooperation with the market administrator's office in this sense, that he has very accurate records and whoever does administer it could rely on that information.

Mr. McINTIRE. Do you have any comment to make with respect to Mr. Eckles' statement that within the greater area around Chicago, market order territories that have been functioning under a two-price system are now shifting to a blend price?

Mr. SMITH. There have not been markets around Chicago, according to my understanding, that have been on any two-price plan in this sense. Now, one element of confusion; there has been a base plan in some 35 Federal orders for several years. But it is strictly a seasonal base plan with an open base, in the sense that producers make a new base every year to be applied the following spring months, and it is an incentive to them not to tailor their total production in line with demand, but it is an incentive to even out production.

Now, it has worked very well, very dramatically, for that objective. But they are now finding that these plants have produced an undesirable side effect in that the producer—he brings his fall production up, but he does not lower his spring production. Statistically, you get an even pattern, but you get more unneeded milk in total as a result. In recent months, there have been several of these plans suspended or terminated. Chicago is one of them. The Milwaukee market is an individual handler pool, which some people characterize as a sort of base plan in itself.

It doesn't use that term, but the nature of that pool works in other ways to tailor the amount of milk delivered there pretty closely to demand.

There was a reference, I think by Mr. Graham, to three markets having this type of plan that have orders. But there is this important distinction—those plans are operated privately by the cooperative and not under the auspices of the order, because naturally, it is not legal yet.

Mr. JOHNSON of Wisconsin. If there are no further questions we want to thank you, Mr. Smith. We are sorry that you were overlooked.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. JOHNSON of Wisconsin. Is Mr. Jim Woods of Groton, N.Y., here, or Mr. George Ruuspakka?

**STATEMENTS OF JAMES WOODS, DAIRY FARMER, LANSING, N.Y.,
AND GEORGE RUUSPAKKA, DAIRY FARMER, TOMPKINS COUNTY,
N.Y.**

Mr. Woods. Mr. Chairman and members of the committee, my name is James Woods. I am a dairy farmer from Lansing, Tompkins County, N.Y.

I am a family farmer, dependent upon my income from 40 dairy cows and sometimes a cash crop, for my entire living and for the future of my family.

I have been a dairy farmer for 25 years. Just before coming to Washington I looked back over some of my milk-check stubs and I found that in January 1953, I received \$6.58 per hundredweight for 3.5 milk. In July of this year I got \$3.63. In 1952-53 I shipped about 10 cans of milk a day. This year I am shipping 18-20 cans. I do not belong to a cooperative and my milk goes to a pickup station in cans to be transferred to New York. I am receiving the New York blend price.

I noticed yesterday, Mr. Chairman, that your subcommittee was hearing testimony on some milk bills and that one of them was a bill introduced by Congressman Stratton who represents a district neighboring mine.

The dairymen in New York have been aware of Congressman Stratton's concern for dairy income. I am sure you know that New York is the second ranking State in dairy production and that all of our rural economy is dependent on the price of milk.

Since he has been in the Congress, Mr. Stratton has continued to point this out to both Republican and Democratic administrations. It is my belief that amendments which are in H.R. 8357, Mr. Stratton's bill, would enable the dairy farmers themselves to improve their bargaining position by reducing production in order to get the best price for their milk, in order to receive enough dollars to stay on the farm.

Unless we have the type of assistance which Mr. Stratton's bill can give, we will continue on the treadmill of producing more and more milk for cheaper and cheaper prices until we all go the way a large percentage of dairymen have already gone completely bankrupt.

In addition to being a dairy farmer, Mr. Chairman, I am a taxpayer and I do not enjoy making milk and selling it and then expecting the Government to buy it. I would a lot rather get a decent price for my milk and not be regarded as a burden to my fellow taxpayers.

Word reached me yesterday that this committee is receiving testimony and Mr. Ruuspakka and myself left upstate New York about midnight and drove down here to tell you how we felt. We want you and the committee to know how we feel and we want Congressman Stratton to know that we want him to continue his interest in the way we make our living.

I am not afraid of this control by the Government. The banks and the insurance companies and the lawyers and the doctors in New York State are all subject to some kind of control and this seems to be working out all right for them. As dairymen, we do not look upon the right to get together under the law and limit the supply of our commodities on the market in the same way that business and industry do, as anything to fear. Rather we think that this is good business judgment, and we would like to apply as much business judgment to our marketing as we have to our production.

We are shipping enough of a good product to our city consumers and we are not getting paid because we have not yet learned to take advantage of modern business under systems in which Government can help us.

I thank the committee for hearing me.

Mr. JOHNSON of Wisconsin. Have you a statement also that you wish to give at this time?

Mr. RUUSPAKKA. I can read it in the record; yes.

Mr. Chairman and members of the committee, my name is George Ruuspakka. I am a Tompkins County, N.Y., dairyman and I appreciate the opportunity to come to Washington and to let the Congress know how I feel about the dairy situation and what I think the Congress can do to assist us.

Speaking as a New York dairyman, I think that Congressman Stratton's bill, which would let us vote to limit our production to get the

best price that the market can bring us is a good business plan and is a real democratic approach.

When factories hit a point of surplus, they cut down production. Labor unions are able to limit the workweek so that their members can get a good weekly wage. Milk marketing orders can do the same thing for us if you adopt Congressman Stratton's proposal and amend the Marketing Agreement Act. I do not think that the Congress should have any reluctance to do this. I think they can trust dairymen to vote in their own interests to limit production and when dairymen do this they will continue to ship milk to consumers in cities and not have to produce milk at a loss to themselves and at a big Government expense.

I am a member of a cooperative and my cooperative is supporting Congressman Stratton's bill. However, I came here to speak only for myself. No one dairyman nor any one cooperative, no matter how large, can do this job. We need the cooperation of all the dairymen in the country and the Government. If we do not work together and work with the Government and have it work for us none of us will be able to afford to stay on the farm and only large corporations will be able to survive as farmers. I think this bill will give us a chance to vote in our own business and give us a chance to supply our customers without being a big taxpayer expense.

I want to thank Congressman Stratton for his interest in our industry and in our welfare and I want to thank this committee for the opportunity to tell my story.

Mr. JOHNSON of Wisconsin. Thank you.

Any questions?

Mr. McINTIRE. I have a few questions.

Mr. RUUSPAKKA, how large a dairy do you operate, and what production do you get on this?

Mr. RUUSPAKKA. Per cow?

Mr. McINTIRE. No; total per year.

Mr. RUUSPAKKA. Well, they average probably between 12,000 and 13,000 pounds per cow, I can tell you that.

Mr. McINTIRE. Well, let's call it 12,000. That is going to be about 360,000 pounds.

Mr. RUUSPAKKA. Right in the neighborhood.

Mr. McINTIRE. Do you at this time get the same price Mr. Woods mentioned, \$3.63?

Mr. RUUSPAKKA. Yes, I am.

Mr. McINTIRE. Now, if this is running a 50-percent surplus and 50-percent class I in the New York order—I don't know whether that is correct or not. I guess the chairman made reference to that figure.

Is that correct? Do you have any idea?

Mr. RUUSPAKKA. It is very close to it. I mean, it varies from one time of the year to the other on consumption, fluid consumption.

But it is on the average of 50—you can say 50.

Mr. McINTIRE. Well, with a 30-cow farm at 12,000 pounds, you have a pretty good operation from the standpoint of good production on a sort of one-man or family unit?

Mr. RUUSPAKKA. That is right.

Mr. McINTIRE. How much would be the class I price on \$3.63 blend? It might well be in the neighborhood of what, Chet? Do you know about what that would be?

Mr. SMITH. In June, when the blend was \$3.60, the class I was actually \$4.56.

Mr. McINTIRE. \$4.56.

How much of a base under this program would you anticipate you would get as a class I base, 180,000 pounds?

Mr. RUUSPAKKA. Well, they would probably be prorated, wouldn't it?

Mr. McINTIRE. Well, I guess so. I am feeling my way along and I imagine you are, too. But I am just saying if it is 50-50 now, would you anticipate that you would receive a base of 180,000 pounds?

Mr. RUUSPAKKA. Well, if you have it figured out in arithmetic, perhaps it would. I am just guessing.

Mr. McINTIRE. Well, if that was the base of 180,000 pounds, if that was your base and that class I price is \$4.50 a hundred, what is going to be your decision as to the number of cows you are going to keep on your farm if you get a base of 180,000 pounds at a class I price of \$4.50 a hundred?

Mr. RUUSPAKKA. What would be your decision?

Mr. McINTIRE. Yes, what is going to be the decision you are going to make?

Mr. RUUSPAKKA. Well, I think I deserve a little vacation and time off, too. I would not want to produce any more.

Mr. McINTIRE. Even if you deserve a vacation and time off, your taxes are going to be just the same.

Mr. RUUSPAKKA. That is right, but I would not have to work as hard.

Mr. McINTIRE. In other words, you would not keep the 30 cows?

Mr. RUUSPAKKA. Oh, no; that would be ridiculous.

Mr. McINTIRE. You would plan to cut the size of your herd?

Mr. RUUSPAKKA. Definitely.

Mr. McINTIRE. And you would make your plans basically to produce whatever the class I quota was, rather than anything over and above the class I quota?

Mr. RUUSPAKKA. That is my decision, yes.

Mr. McINTIRE. Well, if you kept as good cows as you have there now, this would mean that you could take care of that with somewhere between 15 or 20 head?

Mr. RUUSPAKKA. Perhaps; if your mathematics are faster than mine.

Mr. McINTIRE. I am just thinking, you have 30 head now and half of that would be 15 and I am assuming there would be a little overage on that.

Now, you feel that your economic circumstances would be much improved on the basis of a 15- to 20-cow herd, getting \$4.50 for your milk?

This your feeling??

Mr. RUUSPAKKA. Well, I could divert. I have intentions of diverting.

Mr. McINTIRE. What are you going to divert?

Mr. RUUSPAKKA. I have a byproduct to sell of surplus hay. I do not have to feed stock and I can cash-crop it.

Mr. McINTIRE. What would be the cash crops you would likely put in?

Mr. RUUSPAKKA. Snap beans, sweet corn.

Mr. McINTIRE. So I am just interested from the farm-management standpoint. This is why I am making these inquiries, because under this plan, of course, every man getting his base is going to have some management decisions to make as to what he is going to do about it. This being an opportunity to talk to a gentleman who is a practical operating farmer, I am interested in inquiring as to how you would anticipate making an adjustment in such a program as has been proposed to us here.

And you think that—this, of course, would mean some reduction in income to you?

Mr. RUUSPAKKA. Perhaps from milk production, but also, it would cut down other expenses.

Mr. McINTIRE. Well, yes; grain.

Mr. RUUSPAKKA. The grain and workload that my wife and I have to do.

Mr. McINTIRE. Yes; surely.

Thank you very much.

Mr. JOHNSON of Wisconsin. I have just one question I want to ask Mr. Woods.

In your statement on page 1, you state that in 1953 you were getting \$6.58 for 3.5 milk. How many cans of milk were you producing?

Mr. WOODS. Ten.

Mr. JOHNSON of Wisconsin. Now you have increased that from 18 to 20.

Mr. WOODS. And get half as much money.

Mr. JOHNSON of Wisconsin. Do you think you would do the same, cut down your herd, if this class I provision were enacted?

Mr. WOODS. I sure would. It is no pleasure for me to take care of a bunch of cows for nothing.

Mr. JOHNSON of Wisconsin. Both of you gentlemen: Do you have to buy grain and oats for your cows?

Mr. WOODS. I do not.

Mr. RUUSPAKKA. I do, some.

Mr. WOODS. I raise my own grain.

Mr. RUUSPAKKA. It all depends on the year. If we have a year like the year before this, everybody was a little short in New York State. But this year we are all set.

Mr. JOHNSON of Wisconsin. You try to raise your base grain feed and your hay on your own farm?

Mr. RUUSPAKKA. Right.

Mr. JOHNSON of Wisconsin. That is all.

Mr. Beermann?

Mr. BEERMANN. Thank you, Mr. Chairman.

Mr. Ruuspakka, you are now milking 30 cows. How many total cows do you have?

Mr. RUUSPAKKA. What do you mean? Milking cows or young stock and all?

Mr. BEERMANN. All.

Mr. RUUSPAKKA. I have about 60 head. Of calves, young yearlings, open heifers, and bred heifers.

Mr. BEERMANN. I appreciate your testimony about this, too, because we were in the dairy business and we are actively operating a farm now.

Like Mr. McIntire, I appreciate the little details about operating a dairy farm that might be foreign to other folks in the Congress. Now, Mr. Woods, do you have 80 head in order to milk 40 head?

Mr. WOODS. No; I have about 70.

Between 65 and 70.

Mr. BEERMANN. Are these in-bred cows that are coming fresh soon, or do you have quite a few calves?

Mr. WOODS. We raise all our heifer calves.

Mr. BEERMANN. You raise all your own?

Mr. WOODS. Yes.

Mr. BEERMANN. So there is more to the cost of running a dairy farm than just a milking operation?

Mr. RUUSPAKKA. Definitely.

Mr. BEERMANN. You could reduce your cost quite a bit if you did not have to carry the surplus livestock in order to assure your normal production?

Mr. RUUSPAKKA. Of course, there is one thing you have not realized. We can realize profit from perhaps selling some of the young stock and raise them as a sideline for replacements.

Mr. BEERMANN. Are most of yours Holstein or what kind do you use?

Mr. RUUSPAKKA. Holstein.

Mr. WOODS. Ours are all Holstein.

Mr. OLSON. Mr. Chairman—

Mr. JOHNSON of Wisconsin. Mr. Olson.

Mr. OLSON. It has been mentioned that this will hurt the livestock market to reduce these dairy herds. I wonder if it would not be true that it would get you out of production of some beef?

You would not maintain a herd of 70 cattle, Mr. Woods, to maintain your milk cow herd if you didn't have to have that big a milk cow herd?

Mr. WOODS. No.

Mr. OLSON. In other words, this might actually be advantageous to the cattlemen?

Mr. WOODS. That is right. I would not be raising so many cows.

Mr. OLSON. The way I calculate these figures on the illustration of 30 cows, at \$3.80 and \$4.60, it would be possible for you to drop your production 80,000 pounds and still get the same paycheck.

Mr. RUUSPAKKA. I would have to sacrifice. I realize I would have to sacrifice and would have to pick up on something else.

Mr. OLSON. I do not think you would have to sacrifice. You would cut your overall herd down.

Mr. RUUSPAKKA. I did not get what you meant.

Mr. OLSON. What I am saying is, if you took a pencil and I know farmers do, and go to work at the kitchen table, you could actually figure it out so you could drop off immediately 80,000 pounds of your production and receive the same income.

Mr. RUUSPAKKA. Right—I believe. I am not economically qualified to know that, but I would know that you could be justified.

Mr. OLSON. Well, I am probably less than you, but I am sure you take a pencil and do some figuring.

Mr. RUUSPAKKA. I have. I have thought of it. I have thought of it and I sweat a good many nights over it.

Mr. OLSON. Thank you.

Mr. JOHNSON of Wisconsin. If there are no further questions—I understand from your Congressman that you drove all the way down from New York to testify.

I am glad you did.

Mr. RUUSPAKKA. Thank you for listening to us.

Mr. WOODS. Thank you, sir.

Mr. JOHNSON of Wisconsin. The next witness is Mr. Robert Williams of the Wisconsin Dairies Cooperative, Eau Claire, Wis.

STATEMENT OF ROBERT WILLIAMS, DIRECTOR OF PROCUREMENT AND PUBLIC RELATIONS, WISCONSIN DAIRIES COOPERATIVE AND DAIRY MAID PRODUCTS COOPERATIVE

Mr. WILLIAMS. First of all I want to thank you for this opportunity to be heard.

My statement is divided into two parts. My first part I am delivering in behalf of Dairy Maid Products Cooperative of Eau Claire, laying out provisions we believe should be contained in any dairy legislation.

The second part would be taking Mr. Johnson's bill and incorporating the specific and general principles into his specific piece of legislation.

I would like to, rather than read this statement verbatim, I would like to read parts of it and make some informal comments to expedite the hearing.

Mr. JOHNSON of Wisconsin. If there is no objection, your full statement will be put into the record as read and you can comment on it as you please.

Mr. WILLIAMS. Thank you.

(The complete prepared statement of Robert Williams follows:)

STATEMENT OF ROBERT J. WILLIAMS IN BEHALF OF DAIRY MAID PRODUCTS COOPERATIVE, EAU CLAIRE, WIS.

Mr. Chairman and members of the committee, my name is Robert Williams. I am director of procurement and public relations for the Wisconsin Dairies Cooperative, the second largest dairy processing cooperative in Wisconsin. I am also speaking in behalf of Dairy Maid Products Cooperative, a federation of cooperatives, through which some 21,000 Wisconsin and Minnesota dairy farmers market their dairy products.

My experience in the dairy business includes having been born and raised on a dairy farm, taught vocational agriculture, was office manager of an ASC office, and was the dairy marketing specialist for the State of Wisconsin prior to taking my present job as director of public relations and procurement for the Wisconsin Dairies Cooperative at Union Center.

GENERAL OBSERVATIONS AND SUGGESTIONS

I would like to first make some general observations and suggestions relative to the dairy problem and program.

(1) There is a real need to provide a program to increase income to dairy farmers. The only way that this can be done is through legislation at the national level. Some persons believe that the support level of prices should remain at 75 percent of parity, thus squeeze out the inefficient farmers, with the result that supplies will be brought into balance with demand.

This is a rough road to take and will not lead to stability of prices at a reasonable level and orderly marketing of milk and dairy products.

Regardless of how large individual farm units become, they will still lack bargaining power compared to the firms from which they purchase production goods

and to which they sell their products. They will still not be sufficiently large or organized to gear production to the demands of the market for optimum and stable prices of either milk at the farm level or retail prices at the consumer level. In brief the free market concept will over the long run mean depressed dairy farm income, temporary wide fluctuations of milk and retail prices for the various dairy products, and in general disorderly marketing.

The right kind of dairy legislation can increase farm income, stabilize prices at reasonable levels prevent disorderly marketing, and at the same time keep taxpayer expenditures at reasonable levels.

The contribution of the dairy farmer and farmers in general to the economy has been and should continue to be substantial, but the peculiarities of the farm economy makes it vulnerable to depressed income when compared to other segments of our economy in the absence of legislation.

(2) The Congress has to take the step to initiate a farm program or at least provide the individual farmer with the opportunity to decide for himself whether he wants a program. Letting the farmers decide for themselves, from among sufficient alternatives, will take the farm program out of the hands of the different politically motivated farm organizations and special interest groups, and allow the individual farmers to decide for themselves whether they want to participate or not.

(3) The dairy program should be so designed that it is basically voluntary and gives producers adequate incentive to participate on an individual or majority basis rather than by forced participation. Sufficient alternatives must be included to reduce production, keep price support costs at a reasonable level, and yet increase farm income.

(4) It should retain the principle of section 8c5(G) in the Agriculture Adjustment Act of 1937 as amended which specifies in regard to Federal milk marketing orders: "No marketing agreement or order applicable to milk, and its products in any marketing area shall prohibit or in any manner limit, in the case of the products of milk, the marketing in that area of any milk or product thereof in any production area of the United States."

This section is basic to the successful and equitable administration of any national dairy legislation which will be in the long-term best interests of the dairy industry, and the consuming public.

Retention of the principle of this section of the act in dairy legislation will do the following:

(a) Assure the free flow of milk between production and consumption areas. It will allow producers to compete for higher priced markets, on a free and equitable basis. This would be advantageous both to producers and consumers, regardless of location.

(b) It would prevent class I prices to rise to exorbitant levels in high cost of production areas at the expense of consumers in these areas. It would allow for alinement of class I prices on the basis of cost of transporting class I milk from alternative sources.

(c) It would assure equitable treatment of producers under a Federal order system which is national in scope.

(d) It would assure that individual producers regardless of location were allowed to compete on the basis of efficiency and opportunity which is basic to our democratic capitalistic system.

(e) It would assure proper allocation of this Nation's natural resources. Dairy products should be produced where they can be produced cheapest and most efficiently. The only legitimate barrier to movement of milk and milk products should be the cost of transportation in interstate commerce.

(f) It would allow the dairy industry to adjust to technological advancements on a national basis.

(5) To maintain the principle of free competition, equal opportunity, equitable treatment, and the proper relationship or balance between the manufacturing and fluid segments of the dairy industry, manufacturing milk producers should be allowed to convert to grade A or fluid production whenever the price relationship between the segments justifies such conversion. In other words ample provision should be allowed in Federal order legislation for entry of new producers.

(6) Any legislation should be supplementary to the Federal order and price support legislation now in existence, rather than replace or completely change the principle or functions of the acts, as written. The floor of 75 percent parity is sufficiently low to balance supply and demand. Any lower level used could be considered as a whip to force compliance. The only time that it might be

used would be to discourage increasing production above a historical base of production. The basic acts of the price support and Federal order programs, except for minor abuses, have stood the test of time and have been beneficial to the dairy industry as a whole.

SPECIFIC RECOMMENDATIONS FOR DESIRABLE LEGISLATION

- (1) The dairy legislation should be designed to enhance the income of manufacturing milk producers as well as fluid milk producers.
- (2) The legislation for the manufacturing milk producers should include—
 - (a) A national referendum of two-thirds vote of approval.
 - (b) Incorporate the following provisions:
 - (1) Incentive payments if a producer reduces production.
 - (2) Present support (75 percent parity) or free market price if he maintains present or 1962 base production.
 - (3) A lower or excess price on any marketings over his base if he increases production above his base.
 - (4) Bases should be transferable with the farm and between producers within a given locality.
 - (5) It should be administered through the local ASC committees.
- (3) The legislation for fluid milk should provide for—
 - (a) An individual market approval by two-thirds vote. The supply management provisions should be voted on separately from the other provisions of the Federal order.
 - (b) Incorporate the following provisions:
 - (1) Incentive payments if he reduces production.
 - (2) Present class prices on excess production if he does not increase production.
 - (3) A lower excess price on any volume exceeding his 1962 production base.
 - (4) Interorder transfers and other source receipts should receive pro-rata allocation in class I with producer receipts.
 - (5) Bases should be transferable within individual Federal orders. Any interorder transfer of bases should be subject to approval by the Secretary.
 - (6) The market administrator should administer the program in regulated fluid markets. The ASC office should administer the program in unregulated fluid markets.

In summary, the following criteria or guidelines should be used in formulating a dairy program, some of which are included in the specific bills under consideration.

1. Legislation should be developed to improve the income of the manufacturing milk producers as well as the fluid milk producers.
2. Dairy farmers individually should be given the opportunity to decide for themselves whether to participate in the program after two-thirds of the producers approve of this legislation. On a national basis for manufacturing milk or on a market basis for Federal order producers. The approval in Federal orders should be separate and apart from the approval of the order itself.
3. Adequate reduction payment incentives should be incorporated to get desired reduction rather than forcing participation. The secretary should be given an adequate amount of flexibility in this matter, to obtain desired results.
4. The overriding principle of free flow of milk should be maintained in section 8C5G of the act in the interests of the producers, the dairy industry, and the public. This would include giving free entry to manufacturing or new producer who wish to produce fluid milk.

ALTERNATIVES OPEN TO PRODUCERS UNDER THE ABOVE RECOMMENDATIONS

1. Maintain production within the historical base and receive the supported or free market price as he now does in the absence of such legislation.
2. Reduce production through adequate incentive payments which will maintain income yet reduce costs of the price support program.

Increase production in which case the producer has two alternatives; namely:

- (a) Receiving a lower price for over base marketings.
- (b) Purchasing additional base for temporary or permanent expansion.

These alternatives should be available to both manufacturing and fluid milk producers, and should be administered within the framework of the specific and general recommendations suggested.

SUGGESTED CHANGES IN H.R. 7261

Bill H.R. 7261, submitted by Mr. Johnson, has the most potential for solving the surplus problem and increasing returns to dairy farmers. I would like to suggest some changes in this bill which I believe would make the bill more equitable, more acceptable and more economically sound in the interests of dairy producers and the consuming public. Some of the suggestions are made to avoid misuse of the legislation, clarify parts of the legislation, and modify the legislation to make it economically equitable for all dairy producers whether they produce milk for a Federal order or an unregulated market.

Specific recommendations in regard to H.R. 7261, and basis for recommendations

Page 1, lines 7 and 8, after section, insert “, except 8C5G, providing—”.

This change is recommended for the reasons stated in pages 3 and 4 previously. Also there is no reason why the free flow concept cannot be retained if a class I base plan were put into effect.

Notwithstanding any other provision of this section (lines 7 and 8) implies to me that 8C5G would be made ineffective in the Federal order program. Therefore I inserted the language “, except 8C5G.”.

Page 2, lines 3 and 4, change “classifications” to “classification or comparable use value”. This would prevent producers including several classifications to increase the amount of base milk and thereby circumventing the intent of this legislation. Some markets classify fluid cream as class II, yet because of the butterfat milk equivalent method of computation takes on a value at least as high as class I milk therefore “comparable use value” was inserted.

Page 1, line 1, after producer, insert “or his transferee”. This would merely enable a producer to transfer his rights if he sold his farm, etc.

Page 2 line 2, instead of specifying share, insert “percentage share due consideration being given to pro-rata class I allocation of other source milk.”

One cannot guarantee a poundage share if milk is to flow freely. If entry of other source milk is assured, pro-rata allocation prices will be maintained in proper alinement. If properly alined, there will be no “other source” receipts unless the milk is needed in the market.

Page 2, line 5, reserves essential thereto should be clarified by adding wording to the effect that “due consideration be given to the availability of supplies from alternative sources.”

One of the basic errors that has been made in administering the Federal order program in the past has been the “local market” concept. As a result each individual market has been considered an individual dairy industry in itself, with self-sufficiency the primary objective, without recognizing milk is purchased and sold on a national market. This concept has resulted in the buildup of surpluses in the individual markets which collectively contribute substantially to the national surplus problem.

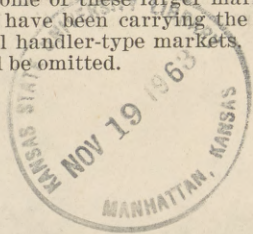
Pages 2 and 3, lines 25 and 1 through 4, after the word “any”, strike “equitable” and insert “pro rata”. After “Agriculture” replace comma with a period and strike “Due consideration being given to the current and prospective supply conditions in the regulated market.”

The word “equitable” is subject to misinterpretation, therefore “pro-rata” was used, which means that a new producer would be assured the same treatment as old producers. The pro-rata concept would be applied to the volume of milk produced during the 1962 or other representative period in the percentage allocation procedure.

Page 3, line 19, after reserve, insert “Due consideration being given to supplies from alternative sources.”

Same reasons as mentioned for line 5, page 2.

Page 5, lines 10 through 23, and page 6, lines 1 through 4: This is a realistic approach to the problem but it smacks of compulsion which will make it unacceptable to producers. It gets at the root of the problem but I believe it would seriously jeopardize the chances of passage of this bill. It would also hit some of the large marketwide pools like Chicago, Boston, and New York-New Jersey, which have allowed freer entry than smaller, more restrictive orders and individual handler-type orders. In other words, some of these larger markets located in the most efficient milk producing areas have been carrying the burden of surplus for some of the smaller and individual handler-type markets. Therefore, I believe the above mentioned lines should all be omitted.



Section 2

Page 7, lines 12 and 14, delete the April 1965 time limitation. This type of program should be a continuing one as the surplus problem and dairy income problem will be a continuing one. Producers cannot make long-term plans or adjustments without such legislation.

Page 7, lines 20 through 24, and page 8, line 1: I would delete this section. It seems to me that the incentive to reduce production should be the same regardless of whether Federal order milk or unregulated milk is involved. We cannot, for the longrun best interests, subdivide our dairy industry further or set up two incentives or different standards for fluid milk and manufacturing milk producers. The surplus is here and is here because of excess production of both segments.

I would like to suggest a program which I believe is equitable and flexible for the benefit of all producers:

1. Set up an annual appropriation of \$500 million to be spent for price support purchases, incentive reduction payments, and supplemental income payments.

2. Provide incentive reduction payments not to exceed \$1 per hundredweight on the volume of reduced marketings.

I believe one could expect reductions in high cost of production areas in Federal order markets (considering also the incentive of the individual producer blending as specified in Mr. Johnson's bill). And also in high cost of production manufacturing milk areas.

3. From the \$500 million appropriation subtract:

(1) Cost of price support purchases of butter, powder, and cheese.

(2) Total of incentive payments.

4. The balance would be paid to all producers on an equal cents per hundredweight basis on base milk for those who did not exceed or reduce marketings below their bases. (Marketings below their allotted base.)

5. The Secretary should be enabled to assess penalties against producers who increase production without sufficient base to cover such increases.

Advantages of such a program

I. With the alternatives specified, the Secretary would have at his disposal the tools necessary to stabilize dairy commodity prices, regulate the amount of surpluses within reasonable limits, maintain an adequate reserve of dairy products, provide a program which is equitable to producers, attack the surplus problem on a national basis, increase farm income, all in the interests of the farmer and the consuming public.

II. Provides maximum amount of flexibility. Examples:

A. Surplus production could be reduced to desirable limits through the individual producer, Federal order blending, and the incentives to reduce production of milk going into manufactured product uses. The cost of CCC purchases and storage of butter, powder and cheese on a milk equivalent basis is over \$4.25 per hundredweight. If adequate incentives are paid to reduce production it would result in more income to the farmer as it would reduce price-support costs and leave more of the \$500 million available for distribution as income, enhancement payments.

B. The Secretary could increase or decrease price-support purchases in the public interest. He could encourage or discourage the production of butter and powder versus cheese, through the level of purchase price under the price-support program. In brief, he could gear production to consumer demand.

C. The income to farmers could be raised without increasing substantially prices to consumers.

D. The Secretary could bring farm income to a closer relationship to nonfarm income through (1) incentive payments, (2) income payments, and (3) bringing supply in closer relationship to demand.

The sources of increased farm income would be—

(1) Incentive payments for maintaining or reducing production.

(2) Income payments.

(3) Reasonable increases in consumer prices resulting from balancing supply with demand.

(4) More Government appropriation going to the farmer instead of the storage and transportation industries.

E. It would provide the tools for the Secretary to maintain a proper relationship between—

- (1) Supply and demand.
- (2) Income of farm versus nonfarm segments of our economy.
- (3) Fluid versus manufacturing segments of the dairy industry.
- (4) Price-support purchases, foreign relief, world trade, etc., with farm income.
- (5) Bargaining power of the farmer versus the groups with which the farmer deals.
- (6) Compliers and noncompliers.

F. Such a plan would be equitable to all producers, (fluid and manufacturing), and maintain free flow of milk and milk products.

G. It would allow the dairy industry and various production regions to adjust to technological advancements in the best interests of individual producers, the dairy industry as a whole, and the consuming public.

H. It would promote the proper allocation of our national resources and conserve our natural resources in the public interest.

I. Such a program would be relatively easy to administer and would utilize existing Government machinery including CCC, ASC, and Federal Milk Marketing Administrator offices.

J. Would stabilize prices of milk and various products at both producer and consumer level.

K. It would build on proven existing legislation without changing their effectiveness and principles rather than disrupting the dairy industry with radical changes. In other words, it would provide the opportunity for the new legislation to improve the surplus and income situation without jeopardizing or sacrificing the legislation now in effect. It would provide the means for determining producer response, etc., without disrupting the Federal order and price-support programs and the competitive relationships between the fluid and manufacturing segments and the regional allocation of dairy resources. Participation would be based on economics rather than administrative estimates.

L. This legislation would be adaptable to future legislation changes as experience with this program was gained.

Respectfully submitted.

ROBERT J. WILLIAMS.

Mr. WILLIAMS. First of all, I think there are some general observations and suggestions I would like to make. One is that there is a real need to provide a program to increase income to dairy farmers. The only way that this can be done is through legislation at the national level.

Some persons believe that the support level of prices should remain at 75 percent of parity, thus squeeze out the inefficient farmers, with the result that supply will be brought into balance with demand.

This is a rough road to take and will not lead to stability of prices at a reasonable level and orderly marketing of milk and dairy products.

Regardless of how large individual farm units become, they will still lack bargaining power compared to the firms from which they purchase production goods and to which they sell their products.

They will still not be sufficiently large or organized to gear production to the demands of the market for optimum and stable prices of either milk at the farm level or retail prices at the consumer level.

In brief, the free-market concept will over the long run mean depressed dairy farm income, temporary wide fluctuations of milk and retail prices for the various dairy production, and in general, disorderly marketing.

The right kind of dairy legislation can increase farm income, stabilize prices at reasonable levels, prevent disorderly marketing, and at the same time keep taxpayer expenditures at reasonable levels.

The contribution of the dairy farmer and farmers in general to the economy has been and should continue to be substantial, but the peculiarities of the farm economy make it vulnerable to depressed income when compared to other segments of our economy in the absence of legislation.

Two, the Congress has to take the step to initiate a farm program or at least provide the individual farmer with the opportunity to decide for himself whether he wants a program. Letting the farmers decide for themselves, from among sufficient alternatives, will take the farm program out of the hands of the different politically motivated farm organizations and special interest groups, and allow the individual farmers to decide for themselves whether they want to participate or not.

The dairy program should be so designed that it is basically voluntary and gives producers adequate incentive to participate on an individual or majority basis rather than forced participation.

Sufficient alternatives must be included to reduce production, keep price-support costs at a reasonable level, and yet increase farm income.

It should retain the principle of section 8c5(G) in the Agricultural Adjustment Act of 1937, as amended, which specifies in regard to Federal milk marketing orders.

At the bottom of page 4 and the top of page 5, I have indicated why this is important to the dairy industry.

On page 6 are some specific recommendations. One is that the program should be designed to increase income of manufacturing milk producers as well as fluid milk producers.

I might add here that I also believe the incentive to reduce or participate in the program should be equal in both the manufacturing and the fluid milk segments of the dairy industry.

Now the legislation for the manufacturing milk producers should include a national referendum and incorporate the following provisions:

1. Incentive payments if a producer reduces production.
2. Present support or free market price if he maintains present or 1962 base production.
3. A lower or excess price on any marketings over his base if he increases production above his base.
4. Bases should be transferable with the farm and between producers within a given locality.
5. It should be administered through the local ASC committees.

I would like to go now to the suggested changes in H.R. 7261. I am merely taking the guidelines mentioned before and applying them to the Johnson bill.

Bill H.R. 7261, submitted by Mr. Johnson, has the most potential for solving the surplus problem and increasing returns to dairy farmers. I would like to suggest some changes in this bill which I believe would make the bill more equitable, more acceptable, and more economically sound in the interests of dairy producers and the consuming public.

Some of the suggestions are made to avoid misuse of the legislation, clarify parts of the legislation, and modify the legislation to make

it economically equitable for all dairy producers, whether they produce milk for a Federal order or an unregulated market.

The specific recommendations on page 8 more or less are designed to assure a free flow of milk.

Page 9, likewise, to assure free entry into the markets and maintain our competitive situation in the dairy industry.

Page 10, a major change which I would recommend in Mr. Johnson's bill would be that this compulsory aspect of his bill be eliminated—in other words, where the producer essentially has the alternative of voting in a class I base plan or lower class I prices or no order. I think this is a compulsion and I think it would be unacceptable to producers.

On section 2, there are some major changes.

Page 7, lines 12 and 14, delete the April 1965 time limitation. To me this type of program should be a continuing one as the surplus problem and dairy income problem will be a continuing one. It is not a problem that is going to go away by squeezing out farmers. Producers cannot make long-term plans or adjustments without such legislation.

Page 7, lines 20 through 24, and page 8, line 1—I would delete this section in its entirety.

It seems to me that the incentive to reduce production should be the same regardless of whether it is Federal order milk or unregulated milk that is involved. We cannot, for the longrun best interests, subdivide our dairy industry further or set up two incentives or different standards for fluid milk and manufacturing milk producers.

The surplus is here, and is here because of excess production of both segments.

I would like to suggest a program which I believe is equitable and flexible for the benefit of all producers:

First, set up an annual appropriation of \$500 million to spend for the price support purchases for incentive reduction payments and for supplemental income payments.

Second, provide incentive reduction payments not to exceed \$1 per hundredweight on the volume of reduced marketing. This is a—this \$1 figure was taken out of the air. I thought it would be sufficient to get the reduction you need. This could be varied.

I believe one could expect reductions in the high-cost production areas and in Federal order markets, considering also the incentive of the individual producer blending as specified in Mr. Johnson's bill, and also in high cost of production manufacturing milk areas.

Third, from the \$500 million appropriation, first of all, subtract the cost of price support purchases of butter, powder, and cheese. Then subtract the total of incentive payments.

Fourth, the balance would be paid to all producers on an equal cent-per-hundredweight basis on base milk on those who did not exceed or reduce marketings below their bases.

Fifth, the Secretary should be enabled to assess penalties against producers who increase production without sufficient base to cover such increases.

The advantages of such a program are that with the alternatives specified, the Secretary would have at his disposal the tools necessary to stabilize dairy commodity prices, regulate the amount of surpluses within reasonable limits, maintain an adequate reserve of dairy prod-

ucts, provide a program which is equitable to producers, attack the surplus problem on a national basis, increase farm income, all in the interests of the farmer and the consuming public.

This type of plan would provide the maximum amount of flexibility. Surplus production could be reduced to desirable limits through the individual producer, Federal order blending, and the incentives to reduce production of milk going into manufactured product uses.

The cost of CCC purchases and storage of butter, powder, and cheese on a milk equivalent basis is over \$4.25 per hundredweight. If adequate incentives are paid to reduce production, it would result in more income to the farmer, as it would reduce price support costs and leave more of the \$500 million available for distribution as income enhancement payments.

The Secretary could increase or decrease price support purchases in the public interest. He could encourage or discourage the production of butter and powder versus cheese through the level of purchase price under the price support program.

In brief, he could gear production to consumer demand.

The income to farmers could be raised without increasing substantially prices to consumers.

The Secretary could bring farm income to a closer relationship to nonfarm income through incentive payments, income payments, and bringing supply in closer relationship to demand.

The sources of increased farm income would be incentive payments for maintaining or reducing production; income payments; reasonable increases in consumer prices resulting from balancing supply with demand; more Government appropriation going to the farmer instead of the storage and transportation industries—and, I should add, processing industries.

It would provide the tools for the Secretary to maintain a proper relationship between supply and demand, income of farm versus non-farm segments of our economy, the fluid versus the manufacturing segments of the dairy industry.

Fourth, price support purchases, foreign relief, world trade, and so on, with farm income.

Fifth, bargaining power of the farmer versus the groups with which the farmer deals.

Sixth, compliers and noncompliers.

Such a plan would be equitable to all producers, fluid and manufacturing; and maintain free flow of milk and milk products.

It would allow the dairy industry and various production regions to adjust to technological advancements in the best interests of individual producers, the dairy industry as a whole, and the consuming public.

It would promote the proper allocation of our national resources and conserve our natural resources in the public interest.

Such a program would be relatively easy to administer and would utilize existing Government machinery including CCC, ASC, and Federal Milk Marketing Administrator offices.

It would stabilize prices of milk and various products at both producer and consumer level.

It would build on proven existing legislation without changing their effectiveness and principles rather than disrupting the dairy industry with radical changes. In other words, it would provide the oppor-

tunity for the new legislation to improve the surplus and income situation without jeopardizing or sacrificing the legislation now in effect. It would provide the means for determining producer response without disrupting the Federal order and price-support programs and the competitive relationship between the fluid and manufacturing segments and the regional allocation of dairy resources.

Participation would be based on economics rather than administrative estimates.

This legislation would be adaptable to future legislation changes as experience with this program was gained.

I thank you.

Mr. JOHNSON of Wisconsin. I want to thank you, Mr. Williams.

Is there any question?

(No response.)

Mr. JOHNSON of Wisconsin. If not, we have one witness left, Mr. Walter B. Garver, Chamber of Commerce of the United States.

STATEMENT OF WALTER B. GARVER, MANAGER, DEPARTMENT OF AGRICULTURE AND NATURAL RESOURCES, U.S. CHAMBER OF COMMERCE

Mr. GARVER. The Chamber of Commerce of the United States believes the present condition of the dairy industry and of the Nation's dairy producers does not justify additional dairy legislation at this time. The dairy industry has begun a recovery from the unsatisfactory conditions of 1962.

Figures of the U.S. Department of Agriculture indicate that during the first half of this year sales of class I milk are up 2 percent from the same period of 1962.

During the same period the disappearance of manufactured dairy products in commercial markets was up by more than 3 percent.

Fluid use for human consumption was running better than 2 percent above the 1962 level.

Blend prices received by farmers who wholesale milk in June and July rose above the 1962 level. Similarly, the prices they received for manufacturing grade milk have moved above those of a year earlier.

Back of these developments is a period of readjustment that has been going on in the dairy industry. Adjustment to current conditions has taken place in the number of milk cows on farms. At the beginning of this year there was 16,632,000 cows on farms, a decline of more than 4 million since 1955. This is a longtime adjustment expected to continue unless uneconomic programs are adopted to interrupt it.

A similar healthy economic development on the supply side has been the decline in the total quantity of milk produced. Even though the decline is only on the order of one-half of 1 percent, continued adjustment of this kind on the supply side is coupled with the modest increase in demand for milk and dairy products due largely to rising population. This is moving the dairy industry gradually into adjustment with its markets.

A marked measure of this improvement is the sharp decline during 1963 in Commodity Credit Corporation purchases of manufactured

dairy products to carry out price-support commitments. Thus far in 1963 these purchases have been running 25 percent below the rates of 1962. During the first half of 1962, CCC purchases equaled more than 23 percent of the total production of manufactured products. Thus far in 1963 they have been at a rate of less than 19 percent of total production.

In relation to total milk production, this means that CCC price-support purchases made a market, or a cushion, for 121½ percent of production in the first half of 1962. For the first half of this year such purchases provided a market for a little less than one-tenth of the milk produced. This government, or CCC market, accounts for an outlay of close to \$500 million annually.

The modest adjustments to which we have referred leave quite some distance for the dairy industry to go in getting itself in gear with its markets. It is important, therefore, that no new programs be provided that will offer incentive to producers to slow down this adjustment, or that will remove the present incentives to adjust.

Moreover, most of the major adjustments have already taken place. From 1950 through 1962 farm milk production increased only 8 percent while population was increasing 11.6 percent. During the same period the marketing of milk by farmers increased nearly 20 percent. This was an increase of 36 billion pounds against a production increase of only 9 billion pounds.

Two principal factors made up this difference. A decline of 10 billion pounds in farm consumption came to market as a result of the declining farm population. Another 14 billion pounds of milk equivalent that had been marketed formerly only as cream was added to the sales of whole milk.

The burden of these great and dynamic changes has now been mostly lifted and their force spent in the adjustments of the dairy industry that have already taken place. From here on the market system should be counted on to provide the incentives for adjustment.

Some of the provisions in the bills before this subcommittee would offer dairy producers the prospect of increasing their incomes. We believe that dairy producers will not approve such plans unless they do in fact offer such a prospect. Such income benefits can only dull the incentives to make basic and necessary adjustments.

The progress in adjustments in the dairy industry has come about by shifts in production from the higher cost, less efficient producers to the more efficient producers and herds.

The principal cause of the slight decline in production was the slowly rising costs, especially among those unable to readjust these costs. This reduction has been principally in the producing areas outside the Federal milk marketing orders where even the supported price was insufficient to cover production costs. Within the order areas and among some efficient producers outside them the producers have continued to expand production by increasing their herd size in order to increase their efficiency and lower their unit costs.

The national chamber interprets those provisions in the several bills before this subcommittee allotting pro rata shares of class I production to each product as a device to stop this progress toward more efficient production and to protect the high cost producers at the expense of the efficient producers.

To the extent that any one producer is in effect guaranteed a share of the class I price, he is doubly protected against his more efficient competitors; first, in getting a larger blend price than he would otherwise get; and second, the CCC support price for the manufactured portion of his production sets an upper limit to his marginal costs and eliminates most of the incentive for him to reduce them.

For the more efficient producers, the individual allotment is a brake on their ultimate progress because it puts all the burden on them, since their expansion, no matter how efficient, lowers their own blend price. But in the short run this will not slow their growth or curtail their expansion unless and until the price for manufacturing milk is driven down to or below their marginal costs.

Since the Federal Government by way of the Commodity Credit Corporation purchases is still the market for almost one-fifth of the manufacturing milk being produced and nearly one-tenth of all milk production, the only economically sound and defensible public policy is gradually and systematically to lower, and then eliminate milk price supports until production is in response to market demands at prices reflecting them. Unless and until such steps are taken there will be overproduction of milk—milk produced for sale to the Government at prices higher than demand will cover.

Any program which by price or payments enhances the income of any producers is therefore in direct contravention of the avowed intent of the bills under consideration "to encourage adjustments in milk marketing," since any such benefits are converted into subsidies to production.

Similarly, provisions such as that in H.R. 7261 to prohibit competitive bidding for "excess" milk are a direct restraint of competition and would end in "balkanization" of the milk marketing areas. They would deny to some consumers the fruits of efficiency and progress achieved in other areas.

The provisions of section 2 of H.R. 7261 providing "surplus adjustment payments" are unsound and unwise public policy. Even though in this instance limited to only 1 year's authority, they further entrench the precedent of paying farmers "for not producing." With Federal farm programs of this kind under heavy and increasing public disfavor because of their high costs and meager results, we believe this subcommittee would be serving the public interest by declining to plunge the farmer and the taxpayer any deeper into this kind of self-defeating payments program.

The authority in H.R. 7261 to transfer the allocations to individual producers or terms and conditions prescribed by the Secretary of Agriculture is an unsound provision.

While it may encourage high-cost operators to sell out to stronger producers, when and if acquired by others through purchase, it would be the sale of a right created by this legislation only, and would thereafter become a fixed capital cost to further impede the adjustment of production to markets in providing consumers efficiently produced milk and dairy products at costs based on sound economics.

In summary, the Chamber of Commerce of the United States believes that the dairy industry is making satisfactory and gradual adjustments toward meeting the needs of the dairy economy under great stress and involving free and voluntary accommodations on the part of dairy farmers themselves.

This adjustment promises a healthier dairy economy if continued. Further legislation at this time can only obstruct such adjustments.

Furthermore, the restrictive interventions proposed in the several bills this subcommittee has before it are unsound public policy because they are aimed at blocking the competitive progress which the dairy industry is making and which, if left done, will be of benefit to the Nation's economic strength and growth.

Mr. JOHNSON of Wisconsin. Thank you, Mr. Garver.

Are there any questions?

Mr. DUNCAN. I would like to ask a question or two.

On page 3, you mention that within the order areas, producers continue to expand production by increasing their herd size. Perhaps I am laboring under a misapprehension as to some of the reasons for this, but would you tell me specifically why this is happening? You do agree that the decline in production, the adjustment to demand, is taking place outside the marketing area, do you not?

Mr. GARVER. Yes.

Mr. DUNCAN. What are the basic reasons why this adjustment is not taking place within the market area?

Mr. GARVER. I think it is because the prices they receive still more than cover the costs of that production.

Mr. DUNCAN. They still more than cover the costs of production?

Mr. GARVER. That is right; either directly or indirectly. Indirectly by reducing costs on an average basis or directly because additional outlays for their cows, feed, or what not, are more than covered by the return they get.

Mr. DUNCAN. What you are talking about, then, is the price supports; is that right?

Mr. GARVER. Well, the price supports are a factor in it and to the extent your price support holds up your blend price.

Mr. DUNCAN. You are saying if these price supports were let down, there would be an adjustment within the marketing order areas, too?

Mr. GARVER. Yes; I think there would.

Mr. DUNCAN. The thing I am trying to get at here, and I am trying to learn, is that these marketing orders are set up by Federal legislation, are they not?

Mr. GARVER. Oh, yes.

Mr. DUNCAN. I have not heard anybody defend them. I am not sure what it is that causes them. I had thought it was the necessity to keep production up in order for the farmer to maintain his share in the fluid market.

I can see how this would certainly tend to encourage the farmer to produce more than could be sold in the trade, if he had to increase his surplus production in order to maintain his proportionate share of that top market.

Is this a portion of the problem?

Mr. GARVER. I am not sure that I got your statement in between qualifications.

The orders themselves were instituted some 30 years ago in order to bring some kind of order out of the chaos that then prevailed when the whole milk structure was pretty badly demoralized.

Mr. DUNCAN. Yes.

Mr. GARVER. Among most or at least many of the students of the dairy economy that I have visited and talked to about this, we have

come to the feeling that before too long, this structure has gotten out of gear with the changing technology and the changing dynamics in milk marketing and they will eventually be due for a drastic overhaul.

But the fact that we are still trying to live on the formula basis and on the use classification of milk on patterns established way back at the beginning or modified since then, sooner or later, we think, will come unstuck and require a different approach.

Mr. DUNCAN. All right.

Now, you say "on a formula basis."

Explain that to me.

Mr. GARVER. Well, there are different formulas by which they set the class I price in different markets.

Mr. DUNCAN. How does a farmer determine how much of his milk is going to go into these class I markets?

Mr. GARVER. He doesn't. He produces milk, just like my wife buys yard goods. The clerk doesn't know whether she is going to make curtains or a shirt or bloomers, or what not, out of them.

Mr. DUNCAN. So there is an incentive for him to produce more and more to get a bigger share of this market, even though the blend price goes down?

Mr. GARVER. That is right.

Mr. DUNCAN. I thought you said that this was a plan that was working perhaps 30 years ago, but it is untouched by the realities of the modern market.

Mr. GARVER. What I was trying to say was that the differential pricing on the basis of different classes of use will break down, are beginning to break down under the technology of milk and milk products and changing consumer demand.

Mr. DUNCAN. The thing I am trying to get at is that it just seems to me that we have a problem in these milk marketing areas. These milk marketing orders are set up by Government laws. If the problem resulting is as a result of these laws, it seems to me we ought to be making adjustments, making changes or perhaps eliminating it entirely, to cure the sore spot, that you say is improving in the unregulated areas. Does this make sense to you?

Mr. GARVER. Yes; I would agree with you wholly on that.

Mr. DUNCAN. What should we do in these areas? It is not enough to maintain the status quo?

Mr. GARVER. We think not.

Mr. DUNCAN. Do you have a concrete suggestion?

Mr. GARVER. We have it under study in our Department and our committee and we expect to have recommendations to make on it. This is, as you know, a very complicated area.

Mr. DUNCAN. Everybody would like to get back to a free market, but nobody wants the chaotic conditions that were produced in the free market 30 years ago, do they?

Mr. GARVER. I don't think it is as simple as getting back to the free market. You have to have principal reliance on the market supply and demand forces and the economics that make them up. We recognize that there are needs; just as you have minimum wages, there are needs for sheltering or transitional provisions just to keep this thing from wiggling all over the map, inordinately so. I don't say "free market." period. We say "primarily guided by the market forces" is the kind of economy we look to.

Mr. DUNCAN. Did you hear the gentleman from New Jersey testify this morning?

Mr. GARVER. No.

Mr. DUNCAN. He indicated that the pricing in their marketing order area is tied into the general wholesale price index and as that declines, the price they receive for their milk declines, too.

They apparently have no quotas in that area, if I understood them correctly. So they are operating in an area where these economic forces of supply and demand seem to have a relative freedom to operate, yet their supply has not declined as wholesale prices go down.

Mr. GARVER. This is a very small part of the gearing to economic forces. I believe they also have a supply-demand factor in there which modifies this, which does bring the supply side into the equation to a limited extent. But tying any price stabilization device to a wholesale price level is only valid insofar as the demand moves in the same direction as the total demand does, and in milk production and milk and dairy production, we have had the reverse. We have had a declining per capita consumption.

Just to give you an illustration, I am carrying on a battle in my house to keep my kids drinking milk instead of Patio Cola. That costs a whole lot more per quart than milk. Tying the trends to wholesale price levels might be the worst thing you can do.

Mr. DUNCAN. The demand is no longer tied to the price, you mean?

Mr. GARVER. That is right.

Mr. DUNCAN. But likewise, the impact of the lower price has not had any effect on the producers to limit their production. At least, this was the testimony—

Mr. GARVER. As long as you have price supports sheltering this thing at a point to where the Government is the market for 10 percent of it, I would say, "No, they are not facing the facts."

As rugged and as drastic as has been the adjustment in the dairy industry, which has been greatly aggravated and the problem made largely by this extra push of additional milk from the farmers—as much as that has been, I think some of the dairy producers have been deceived that there is a rainbow around the corner.

I don't think that is the prospect in the dairy industry. I think there is still a way to go in adjusting to the facts of the future markets.

Mr. DUNCAN. May I ask from what source your statistics were derived in the initial part of your statement?

Mr. GARVER. They are all from recent issues of the Dairy Situation of the U.S. Department of Agriculture.

Mr. DUNCAN. They seem to differ just a little bit, at least from other figures produced at this hearing.

Mr. JOHNSON of Wisconsin. There is one statement I cannot agree with.

You say there has not been as much increase in production in the Federal milk marketing order areas as in the manufactured milk order areas. I think most of the testimony has been that production increase has been greater in the Federal milk marketing—

Mr. DUNCAN. That is the way I understood his testimony.

Mr. JOHNSON of Wisconsin. Is that what he said?

Mr. DUNCAN. His statistics indicated some decline in the larger-milk marketing order areas, as I recall it.

Mr. JOHNSON of Wisconsin. I think it is a matter of price that is causing the decline in the manufactured milk market areas, because \$3.14 is a lot different than \$4.15 or \$3.50 or \$4.75 or \$4.50.

Mr. GARVER. Right.

Mr. DUNCAN. He testified to this, a half of 1 percent decline in the quantity of milk produced.

I think your testimony was that most of that is in the manufactured area.

Mr. GARVER. I think that is right.

Mr. OLSON. Mr. Chairman—

Mr. JOHNSON of Wisconsin. Mr. Olson.

Mr. OLSON. Does your statement that the reason for the increase in production of milk in the Federal milk marketing order areas—because they have not yet declined to the point of cost of production—conversely endorse the fact or in any way intimate that the price of milk in manufactured milk areas is only at the cost of production?

Mr. GARVER. This is a question of fact that can only be determined by the data in the area. There are different cost structures in different areas.

Mr. OLSON. I do gather from your testimony that you feel that all we need to do to remedy the situation is to reduce the price of milk to the cost of production.

Does that not leave the farmer with nothing?

Mr. GARVER. This is the business world in which we live and every year there are literally thousands of people who only get the cost of production and quit. This is our competitive enterprise system.

I can cite you figures of the study of the Department of Commerce over a 10-year period that 87 percent of the firms that were in business at the beginning of that decade had disappeared at the end. This is a fact of life that a lot of people like to think is not there. But you talk to small businessmen or even big businessmen—even some of the big ones cannot get the cost and they go under or they quit before they are suggested.

Mr. OLSON. You do not purport to represent any farmers in your organization, do you?

Mr. GARVER. We are not a farmer organization. We have farmer members, including dairy farmers, who are producers. But they are by no means the dominant voice, as is no other group the dominant voice.

Mr. OLSON. You do represent a lot of processor interests, though, that would stand to lose by reducing the surplus production of milk, do you not?

Mr. GARVER. Well, I think it is a question whether they stand to lose or not. They do represent some processors, to answer your question of fact, yes. We have processor members as well as producer members. We have two members of our agriculture committee that are producers and handlers.

Mr. OLSON. Have you ever, as a national chamber, made clear to small businessmen that there is no hope for them and they will go under on the basis of economics the same as the farmers in rural areas?

Mr. GARVER. No, sir; we have not; because they know it better than we do, those of them in that predicament. But we also know from the history of business in this country that all the successful businessmen

are ones who once would have gone under. We do not go out crying wolf and that is not a situation called for.

Mr. OLSON. Is there a valid distinction between the perishable nature of the products of the farmer and the size of the individual farm that will justify some governmental system in maintaining his price—his marketing position with the purchases of his commodity?

Mr. GARVER. I think to this extent that changes need to be—when changes are made, or to take the illustration that we are talking about, the reduction of price supports, these ought to be done with sufficient warning and with a sufficient degree of gradualness to leave a man time to get back on his feet if he is able to, or to make up his mind whether he had better quit.

Mr. DUNCAN. Will you yield?

Mr. OLSON. Yes.

Mr. DUNCAN. Of course, he will have from time to time recourse to import quotas or tariffs and so on?

Mr. GARVER. That is right. There are a number of devices in our economy that have been set up, as I said, partial shelters, to cushion otherwise chaotic conditions.

Mr. DUNCAN. That is all.

Mr. OLSON. I want to make one last point, Mr. Chairman, that has not been mentioned, I don't believe, that there has been a drop for about 5 months in a lot of our manufactured milk areas. Maybe this had something to do with the weather in the production areas, there has been less grass out there this summer.

Mr. GARVER. For more than thirty years, I worked back at the University of Minnesota, your own State, when I was a research scientist, supposedly.

I worked with weather and its relation to agriculture. If I learned any one clear lesson, it was that you could always blame the weather or you could never really point to how the weather was to blame. I do not mean by that to imply that the drought has not had something to do with this, but when you come to, as I have done, worked in detail on per-head yields of animals on pasture, or to deal with yield and quality of corn in relation to weather, it is surprising how many things you think are minus factors turn out to be plus.

Mr. OLSON. If I thought it would ever serve any good purpose and that you people would not find more answers on your side for next year, I might some day be convinced of the fact that if you wait a year on the status quo you then come back and review the figures. But I am sure you would not agree with me on what the figures of the past year showed me, either.

Mr. GARVER. I do not know if you are still referring to weather or not, but it was not too many weeks ago that I heard said in this room that the reason the feed grain program was not working and I think it was mentioned here yesterday that the production was up some 8 percent over last year, and this, too, was blamed on the weather. So as I said before, I learned myself not to blame or credit the weather.

Mr. JOHNSON of Wisconsin. Mr. Garver, we are always glad to hear the chamber of commerce, and I might say from my observation in 8 years on this committee, your position is still the same as it was 8 years ago. So at least you are consistent.

Mr. DUNCAN. May I ask one more question before you bang the gavel? Have you examined the testimony of the Grange in regard to this problem?

Mr. GARVER. I have not seen it; no.

Mr. DUNCAN. I wish you would and I would be interested, personally, if not the committee, in your comments on it.

They have a reduction on the incentive plan over a period of 5 years which seems to be reminiscent of one of the approaches to the cotton problem which, as you know, is a difficult one to solve. I wish you would examine it.

Mr. GARVER. I can comment on this now.

Mr. JOHNSON of Wisconsin. If there is no objection, I wish the gentlemen would get together further after we adjourn.

Mr. OLSON. Mr. Chairman, I have some documents here relating to causes of overproduction. They are not very long. I would like to have permission to put them in the record.

Mr. JOHNSON of Wisconsin. If there is no objection, it will be done. (The documents referred to follow:)

WHY FARMERS ENLARGE¹

We expect a lot of loose talk this year about why milk production is going up and adding to our already heavy surpluses. Already we have heard several men charge that the proposed national base program is causing a major upsurge in production. We have no doubt that it may be having some influence. On the other hand, a survey taken recently by the Lake to Lake Dairy Cooperative in Wisconsin indicates the discussion of bases or quotas has comparatively little to do with the increased flow.

At its annual district meetings this winter, Lake to Lake conducted a detailed survey. Of those completing the survey forms, 70 percent stated that they had increased production in 1961, 15 percent had less production, while 15 percent maintained production about on a level with previous years.

Of the 70 percent who increased production, only one dairyman listed the base or quota factor as his reason for increasing production, and only one other dairyman listed higher supports as his reason for increased milk production. All of the remainder gave such reasons as "better feed and pasture conditions," "mechanization," and so forth.

Manager Truman Torgerson concludes, "So, when all the window dressing and prejudices are wiped away, the reason for the big upsurge in milk production must be attributed to technology—better breeding, feeding, and mechanization accompanied, of course, by the desire and initiative of the producer for better living."

"BROWN SUGAR" REBUTTAL DIFFERS WITH PRODUCTION EVIDENCE AND CALENDAR OF EVENTS²

In his letter, Percy Hardiman takes us to task for our June 10 editorial. Our reply to his letter requires a review of national milk production and a calendar of events.

¹ An editorial comment from *Hoard's Dairyman*, Fort Atkinson, Wis., of May 25, 1962.

² From *Hoard's Dairyman*, Fort Atkinson, Wis., Sept. 1, 1963.

[In billions of pounds]

	Milk production	Gain or loss		Milk production	Gain or loss
1950.....	116.6	-----	1957.....	124.6	- 3
1951.....	114.7	-1.9	1958.....	123.2	-1.4
1952.....	114.7	-----	1959.....	122.0	-1.2
1953.....	120.2	+5.5	1960.....	122.9	+ .9
1954.....	122.1	+1.9	1961.....	125.4	+2.5
1955.....	122.9	+ .8	1962.....	125.9	+ .5
1956.....	124.9	+2.0	1963 (6 months).....	65.7	- .5

If, as Farm Bureau contends, "quota talk" is largely responsible for increased milk production, history has a strange way of recording it. There was no base or quota talk in 1953 when milk flow soared 5.5 billion pounds.

The first suggestion of a self-help, base-surplus program was advanced April 10, 1954. One month later, the Governor of Wisconsin asked 49 farm and dairy leaders to his office seeking their guidance. They overwhelmingly urged his endorsement of the program. Widespread publicity followed. Production did not boom.

There followed about 3 years of relative dormancy while the Dairy Policy Committee of the National Grange refined the program with the counsel of the National Milk Producers Federation. On February 25, 1957, the Grange released its dairy stabilization bill.

After a year of further conferences with such groups as the Farm Bureau and Farmers Union, a redraft was prepared and introduced into Congress with bipartisan support. This was in January 1958. Later that same year, Farm Bureau delegates from nine Midwest States rejected the counsel of President Charles Shuman on price supports and self-help. Still the bill did not pass Congress.

Nothing further was done on base bills until January of 1962 when this administration recommended its ill-fated dairy bill. Publicity hit an alltime high. Then came 1963 and the dairymen's class I base plan. Does the record show that these bills and their public discussion caused a boom in production? We cannot see the evidence. Nor is it supported by a membership survey made by a large dairy cooperative and reported on this page May 25, 1962.

As Mr. Hardiman states, the quota talk part of Farm Bureau testimony was only a part of their presentation. But it is this very part that Farm Bureau leaders have grasped to highlight in their public statements. Because of this, we felt the need to comment on what we consider extremely misleading evidence.

We do not deny that some persons, anticipating negotiable annual bases, may have enlarged their herds. But effect on national milk flow is difficult, if not impossible, to discern.

The Chicago base plan, referred to by Mr. Hardiman, is an open fall base. It causes a fall base race; plants the seeds of its own defeat. That is why Pure Milk Association has asked for a class I base plan for 4 consecutive years. The PMA action is in accord with our contention completely, and gives no support to the position of Farm Bureau.

We do not deny that both Republican and Democrat Presidents have fiddled with price support levels for purely partisan purposes. We do not defend them one bit. It is significant, however, that neither Mr. Eisenhower nor Mr. Kennedy ever raised price supports above then prevailing open market prices.

Quota talk was not in the news during the 1960 presidential year. To our knowledge, neither Mr. Nixon nor Mr. Kennedy discussed dairy proposals in the campaign. Mr. Freeman made his statement in March 1963.

It does not take 2 years to boost milk production. The record clearly shows that a sharp drop in beef prices causes a drop in the culling of milk cows. Many borderline cows are worth more in the milking line than over the block. The effect on total milk flow may not be as dramatic as in 1963. But even a 2-percent boost means over 2 billion pounds more surplus, costing taxpayers \$100 million to handle.

Mr. Hardiman is quite fortunate, however. He ships milk to a fine cooperative in an individual handler pool Federal order market. Last year it set up a class I base plan that is working very well.

COMMENTS ON SOME CURRENT LEGISLATIVE PROPOSALS AND MARKETING PROBLEMS
RELATING TO MILK¹

1. The proposal that the Agricultural Marketing Agreement Act be amended to authorize the use of so-called class I bases under Federal milk marketing orders. (The latest form of this proposal, I believe, is embodied in S. 1915 by Senators Proxmire, Magnuson, Jackson, and Hart. No doubt there is a companion bill in the House.)

This proposal involves the assignment to each producer (in the market where such a plan is adopted) of a base or quota representing his share of the total fluid sales. For that quantity of milk (plus a normal reserve, perhaps) the producer would receive a relatively high fluid milk price; for any additional quantity delivered he would receive a lower surplus milk price.

The bases would be assigned in accordance with the recorded market receipts from the various producers during a representative period of time, such as the last year prior to adoption of the plan. Provision would be made for adjustments in hardship cases.

The primary purpose of this two-price arrangement is to enable producers who wish to do so to adjust their output so as to limit the quantity for which they receive the low surplus value. Under the present system a blended or uniform price is computed and announced by the market administrator, on a market-wide basis in those Federal order markets that have marketwide pooling, on an individual handler basis in those markets for which individual handler pooling is prescribed. (Only 13 out of a total of 83 Federal orders provide for individual handler pooling; the other 70 provide for marketwide pooling.) Each producer is now paid in accordance with the uniform price and, in effect, all producers in a given market bear the same proportionate share of the low-priced surplus regardless of whether their individual outputs have increased, decreased or remained constant over a period of time.

Under the proposed two-price payment plan a dairyman who chose to cut back his production or use some of it for calf feeding would lose the surplus value rather than the average or uniform value of the milk not delivered. Similarly a dairyman who chose to expand his production would receive the surplus value of his additional output, rather than the average value at uniform price, unless he acquired more base.

Under present price-blending arrangements the production of surplus milk under Federal orders is, in effect, subsidized. Nearly all Federal order markets with marketwide pooling have larger reserves than are needed and these contribute to the national surplus. In 1962, for example, surplus milk constituted 46.8 percent of the New York-New Jersey pool. The market value of this milk at the class III price, after adjustment for lower returns on milk used for making butter and cheese, was about \$3 per 100 pounds. But thanks to the high class I price (\$5.30 per 100 pounds for fluid milk) any dairyman who chose to increase his output was assured of receiving the average or uniform price which amounted to \$4.12 per 100 pounds. Thus, in effect, a subsidy of more than \$1 per 100 pounds (\$4.12 minus \$3) was offered under the New York-New Jersey order for producing additional quantities of surplus milk.

It is this uneconomic situation which the proposed two-price base plan is designed to remedy.

I believe that this type of two-price base plan is worth trying as a potentially desirable modification of the present system of payment under Federal milk orders. The plan should be optional for each market as the bill provides, subject to adoption through the usual hearing and amendment procedure, except that producers should have an opportunity to vote on this proposal separately. S. 1915 provides for this.

Legislative authority for the use of such base plans should include safeguards against arbitrary exclusion of new producers and the bases or quotas should be freely transferable among producers. S. 1915 provides that new producers shall be assigned bases in substantially the same manner as those who had production records at the outset of the plan. It authorizes the Secretary to provide for base transfers but does not specify how this shall be done.

¹ Prepared by Leland Spencer, professor of marketing, New York State College of Agriculture, Cornell University, Ithaca, N.Y., Aug. 15, 1963.

One change that I would suggest in S. 1915 is that the authorization for use of two-price base plans be limited to orders which provide for marketwide pooling, as the New York-New Jersey order and most others do. Individual handler pooling is by nature restrictive and orders which provide for such pooling should not include the additional provision for long-term producer bases.

In my opinion there is need for experience with two-price base plans on a limited scale before they are adopted more widely. Under the permissive legislation now proposed it is probable that relatively few markets would adopt such plans during the next 2 or 3 years. I regard this as a favorable outlook, since there is much to be learned about the administration of such pricing arrangements.² No doubt experience will show the need for changing the rules that are adopted in the first instance.

In several markets such as southeastern Florida, Austin-Waco (Tex.), and central Arizona, two-price base plans of the general type that would be authorized by S. 1915 are being administered by milk producer cooperatives. None of these have been in operation for more than 3 years. All seem to have checked the rising trend of milk production in their respective areas, even though they are not applicable to nonmember producers.

Cooperatively administered base plans must be regarded, however, as a stopgap measure rather than as a longrun solution of the problem. This is so because cooperatively controlled bases tend to reduce the share of total market supply delivered by member producers and thereby to weaken the influence of the cooperative from the standpoint of bargaining.

The two-price base plan idea has been criticized on several grounds. Many critics believe it would interfere with the producer's freedom to manage his dairy enterprise and that it would become a new form of regimentation. It does not seem that this would be true, however, under the provisions of S. 1915, which I interpret to assure the following:

(1) Optional adoption of the two-price base plan in any Federal order market as a separate proposal, through hearing and amendment procedure, and approval by a two-thirds favorable vote of producers.

(2) Freely transferable bases, subject only to regulations deemed necessary to prevent abuses.

(3) No restriction on the total quantity of milk to be delivered by any producer in excess of base, for which a normal surplus value would be paid.

(4) Reasonable opportunity for new producers to enter the market.

It is true that the bases assigned to producers are likely to have substantial market value. Even now, part of the value of a dairy farm is due to the market with which it is associated. With freely transferable bases, part of the capital owned by the dairy farmer would be in the form of base value and somewhat less in the form of real estate. Base value as an intangible asset of a market milk producer would be comparable to the good will value in the balance sheet of a milk dealer or other business enterprise which has an established outlet for its products or services.

The market value of bases will depend upon the specific terms of the plan, particularly as to how much milk in excess of class I is included in the base, the amount of spread between class I price and surplus value, and provision for assignment of base to new producers. In my opinion the matter should be so handled that the market value of bases is held to a moderate level, with the result that the total amount of capital required for a dairy enterprise of a given size will be not much greater than at present.

As I see it, a properly designed and administered two-price base plan would tend to give the dairy farmer greater rather than less opportunity to exercise his initiative and management talents successfully. It might well facilitate rather than interfere with the adjustment of dairy farm enterprises toward optimum size. This has in fact been the experience under the cooperatively administered base plan in southeastern Florida where there has been a very active market in base transfers. Marketable producer bases would facilitate the retirement of marginal producers.

I prefer to look upon two-price base plans under Federal milk orders as a means of longrun improvement of our milk pricing system. It would, I believe, be a mistake to attempt to use such plans for the purpose of rolling back pro-

² Base-excess pricing plans have been used widely as a means of bringing about desirable seasonal adjustments of milk production. The 2-price base plans now proposed differ from the seasonal base-excess plans mainly in that the producer bases would be assigned permanently or for relatively long periods, whereas the bases for seasonal adjustment are determined anew each year. Permanent or long-term bases will involve additional and difficult problems of administration.

duction substantially from the level already attained. Farmers are certain to resent and to resist such efforts because so much of their costs are fixed and cannot be reduced when output is curtailed. Enforcement problems probably would become very serious if substantial rollbacks were attempted.

On the other hand, two-price base plans could be a useful device for bringing about better adjustment between milk supplies and fluid sales in city milksheds as time goes on. To the extent that they are effective in this way, two-price base plans will benefit not only the producers in markets where they are used but also the producers of milk for other markets and for manufacturing, consumers of fluid milk, and the taxpayers who bear the losses on dairy surpluses disposed of under the national price-support program.

It is uncertain whether producers in the New York-New Jersey milkshed would give sufficient support to a two-price base plan to assure its adoption in the near future even if the enabling legislation were passed. They may wish to see how the plan operates in other areas before making a commitment to it, and this may be wise, since the problem of administering such a plan in a market supplied by 45,000 producers is sure to be very difficult at the outset.

Even though the immediate effects of the proposed legislation are likely to be quite limited, however, its potential longrun benefits justify its enactment as soon as possible.

2. Proposed legislation to curtail or eliminate the national surplus of milk.

I shall say very little about this except that I doubt the advisability of enacting any such legislation this year. The industry has been adjusting itself to the lower level of price support which became effective April 1, 1962. There now appears to be a fair chance that dairy surpluses will not increase further and may even decline during the next several years. Should this not turn out to be true, a decision will have to be made between lowering the support price further or adopting some alternative measure to curtail production. Should the pendulum swing toward the latter alternative, I would strongly favor the incentive-payment type of program over a national quota plan with heavy penalties on overquota deliveries.

3. The proposal that the Agricultural Marketing Agreement Act be amended to authorize marketwide contributions under Federal orders to milk advertising and promotion programs.

I do not have at hand copies of the bill or bills in which this proposal has been presented to this session of Congress. Last year such a proposal (which mistakenly excluded advertising) was presented in title III of H.R. 10010. The general plan is to make the proposed arrangement optional for any Federal order market, subject to adoption in the same manner that I have indicated for the adoption of a two-price base plan. The authorization should be broad enough to permit of contributions by handlers to the promotional funds.

I favor the enactment of such enabling legislation for the principal reason that completely voluntary contributions to such programs are both inadequate and inequitable. All producers supplying a given market or group of markets benefit pro rata from any gain in sales and consumption of milk which may result from a promotional program. Therefore, all should contribute on a pro rata basis.

We have what I consider to be a very unsatisfactory situation in the New York-New Jersey milkshed in this respect. About one-third to one-half of the producers are contributing 3-cents a hundredweight to the cause of industrywide promotion, the others nothing. The total amount collected is insufficient to support an effective program. Over many years various schemes have been tried to develop such programs but all have failed because of inadequate support resulting from disunity among producers and conflicting policies of their leaders.

Enabling legislation of the type indicated would not insure the adoption of a satisfactory promotional program in New York-New Jersey or elsewhere, but it would certainly help to make such a program possible.

Somewhat similar authorization was incorporated in the New York milk control law a few years ago and is being used currently in the Niagara frontier market. There, about 5 cents per 100 pounds of milk is being spent on a promotional program developed by cooperatives. The cooperatives are reimbursed for 80 percent of this expenditure from the marketwide pool under the State milk control order for that area.

There has been a strong undercurrent of opposition from the American Dairy Association and allied organizations to the proposed authorization for marketwide support of promotional programs under Federal orders. Evidently there is concern in such quarters lest the funds be used to employ competing organizations to execute the programs. This, of course, is possible and perhaps desir-

able. It is obvious, though, that large scale, experienced organizations such as ADA and the dairy councils would have a great advantage in carrying out this type of activity and probably would be awarded contracts for the major part of the work. It is my belief that ADA as well as the National Dairy Council and its affiliated units would benefit rather than suffer from a system of market order deductions for advertising and promotion.

This is a type of activity in which optimum results can be achieved only when the entire milk industry associated with a given market functions as a unit. It is not a type of activity that can be carried on satisfactorily by individual producers or even by groups representing mere segments of the market as a whole.

4. The major problem pertaining to the New York-New Jersey milk order which prices about three-fourths of all milk sold by New York State farmers is the oversupply of milk in its marketwide pool.³ This problem is not likely to be solved by any specific legislative enactment, though certain changes in the Agricultural Marketing Agreement Act to effectuate recommendations of the Federal Milk Order Study Committee appointed by Secretary Freeman early in 1962 may be needed if administrative remedies are too long delayed. This suggestion pertains particularly to the revision, expansion and consolidation of regulated marketing areas, and to revision or elimination of discriminatory order provisions which tend to prevent desirable interorder adjustments.

Slightly less than half the milk priced by the New York-New Jersey order was disposed of as fluid milk (class I) in 1962. With a normal reserve of 40 percent instead of the actual 88 percent reserve over fluid sales of milk and cream (class I and class II), more than 65 percent of the total supply would be disposed of in class I and the blended return (uniform price) to producers would be much higher even though the class prices remained the same. It is desirable to work toward that goal.

How did the present excess supply originate?

It is due to several causes. Probably the major one is the great technological advance in dairy farming, which has taken place during recent years not only in the New York-New Jersey milkshed but throughout the country. Another cause is the loading of the New York-New Jersey pool with a disproportionate share of the surplus milk of the entire northeast dairy region. This has been brought about largely by the existence of individual handler pooling in the Federal orders for Philadelphia and Wilmington as well as in most State regulated markets of the region; also by restrictive health department regulations and order provisions which tend to divert milk surpluses from the other markets of the region.

Unwise administrative decisions and lack of strong constructive leadership by the U.S. Department of Agriculture have been responsible for a considerable part of this problem.⁴

Individual handler pooling is incompatible with marketwide pooling in adjacent areas. Therefore individual handler pooling should be eliminated from the Philadelphia and Wilmington orders. The Department now has an excellent opportunity to do this on the basis of evidence that was presented at a hearing on consolidation and expansion of the Philadelphia and Wilmington orders held in March of this year. Should the Department, on the other hand, agree to extend coverage of the Philadelphia order with individual handler pooling to include southern New Jersey, this will be a serious backward step.

The present inequitable situation could be further helped by extending the Philadelphia order, on a marketwide pool basis, and the New York-New Jersey order, to include southern New Jersey as well as most of the urban territory of the eastern half of Pennsylvania, which now rely upon the New York-New Jersey pool to carry their reserve supplies. Further aid toward reducing the inequality of surplus burdens could be given by consolidating the five Federal orders for New England markets and eliminating the arbitrary barriers contained in some of those orders which interfere with a reasonably free flow of milk supplies into their market pools. The Department of Agriculture is now considering evidence on proposals for consolidation of the New England orders, received at a hearing held early in 1963.

³ It should be noted perhaps that the New York-New Jersey milk order constitutes a system of Federal-State regulation, in which the U.S. Department of Agriculture exercises the dominant control. The State authorities of New York and New Jersey participate mainly in an advisory capacity.

⁴ In this connection, see report to the Secretary of Agriculture by the Federal Milk Order Study Committee, pt. II, sec. 4, pp. 64-78 of the printed edition.

Subsidization of surplus production through the payment of a blended price for the entire output of a producer, as explained in item two of this statement is another important cause of the present oversupply of milk.

And finally, the recent decline in milk consumption per capita, offsetting the gradual increase of population, has been a significant factor in the development of excessive market surpluses. Provision for more adequate financing of educational, advertising, and merchandising programs through market order deductions as recommended in item three of this statement would help to overcome this adverse influence.

(The following letters were also submitted to the subcommittee:)

DAIRYMEN'S CO-OP CREAMERY OF BOISE VALLEY,
Cardwell, Idaho, September 12, 1963.

HON. RALPH R. HARDING,
*House of Representatives,
Washington, D.C.*

DEAR MR. HARDING: We have just been informed that the Dairy Subcommittee of the House Agriculture Committee has scheduled hearings on legislation introduced by Congressmen from the Midwest and New York State for September 17 and 18.

We understand this legislation, for the most part, contains provisions for payments for voluntary reductions in milk production by dairy farmers. Some of the bills also embody the dairymen's class I base plan similar to the Westland bill on which hearings have already been held and similar to the Proxmire bill which has been favorably reported by the Senate Committee on Agriculture.

We believe that reduction payments may prevent the passage of bills providing for the dairymen's class I base plan and respectfully urge you to use your influence to have the House Dairy Committee report the Westland bill to the full committee.

Your favorable assistance regarding this matter will be sincerely appreciated.

Sincerely,

C. M. CARLSON, *Manager.*

NATIONAL MILK PRODUCERS FEDERATION,
Washington, D.C., September 17, 1963.

DAIRY SUBCOMMITTEE OF THE HOUSE COMMITTEE ON AGRICULTURE,
*House Office Building,
Washington, D.C.*

GENTLEMEN: The National Milk Producers Federation supports S. 1915, recently reported by the Senate Committee on Agriculture and Forestry. The Dairy Subcommittee has pending before it H.R. 963 by Mr. Westland, and H.R. 3552 by Mr. Poage which embody the principles of S. 1915, which we support. We oppose the legislation listed in the notice of hearing because it is contrary to the legislation which we do support.

We urge that the subcommittee move without delay to report H.R. 963 or H.R. 3552 or a clean bill similar to S. 1915.

Sincerely,

E. M. NORTON, *Secretary.*

Mr. JOHNSON of Wisconsin. Is there anybody here whose name has not been mentioned who came here to testify before the committee?

(No response.)

Mr. JOHNSON of Wisconsin. If not, the committee will be adjourned.

(Whereupon, at 3:10 p.m., the committee adjourned, subject to the call of the Chair.)

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