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HEARING

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BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKETING, AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 6

A BILL TO AMEND THE AGRICULTURAL ACT OF 1949, AND FOR
OTHER PURPOSES, AND

S. 80

A BILL TO AMEND SECTION 201 OF THE AGRICULTURAL ACT
OF 1949, AS AMENDED, TO EXTEND UNTIL SEPTEMBER 30, 1981,
THE REQUIREMENT THAT THE PRICE OF MILK BE SUP-
PORTED AT NOT LESS THAN 80 PERCENT OF THE PARITY
PRICE THEREFOR, AND

S. 910

A BILL TO AMEND SECTION 201 OF THE AGRICULTURAL ACT
OF 1949 TO REQUIRE THAT THE PRICE OF MILK BE SUPPORTED
AT NOT LESS THAN 80 PERCENT OF THE PARITY PRICE
THEREFOR, AND FOR OTHER PURPOSES

OCTOBER 12, 1979

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1980

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MILK PRICE SUPPORTS

FRIDAY, OCTOBER 12, 1979

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 324, Russell Senate Office Building, Hon. Patrick J. Leahy, presiding.

Present: Senator Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator LEAHY. The Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices of the Senate Committee on Agriculture, Nutrition, and Forestry will come to order.

The chairman of this subcommittee, Senator Huddleston of Kentucky, has been necessarily delayed. Senator Huddleston and I are the only two Senators, I believe, to serve on both Agriculture and Appropriations. I do not know if they do these things alphabetically, or what, but they always seem to have both Agriculture and Appropriations subcommittees meeting at the same time. Senator Huddleston is covering for me at one place and I am trying to cover for him here.

We have a number of witnesses today. What I am going to do is change the order slightly. Senator Nelson, of course, will testify when he arrives. Howard Hjort will be next, and we will skip over Mr. Westwater and Mr. Tucker only momentarily, because Senator Huddleston wanted to be here for their testimony, so that after Mr. Hjort, we will go to Lloyd Patterson and Robert Rumler, who are coincidentally from Vermont; it has nothing to do with the fact that I am chairing the hearing this morning.

Senator Nelson, please join us up here; you are just in time to hear my opening statement, which, I am sure, is one of the main reasons you wanted to be here. It is exciting and scintillating, and I will try to keep it as brief as I can. I will put the full statement in the record.¹

Among the first bills introduced in the 96th Congress was S. 6, my bill to extend the minimum 80 percent of parity price support provision contained in the Food and Agriculture Act of 1977. The extension would make the 80-percent minimum level effective through September 30, 1981.

¹ See p. 29 for the prepared statement of Senator Leahy.

I have outlined in my statement a number of the reasons for this, and among them is the fact that it would provide farmers a needed degree of price assurance for the next 2-year period. That is absolutely necessary to maintain a dairy industry, and a reliable supply of milk for consumers.

I also praise Secretary Bergland, who has announced that manufactured milk will be supported at 80 percent of the October 1 parity price. Very few Secretaries of Agriculture have been as sensitive to the problems of the Nation's dairy farmers as has been Secretary Bergland.

We were honored to have the Secretary in Vermont quite recently; it was the second trip, in fact, that he has made up there. I see very few people in public office who have been so well received in the State in a purely bipartisan fashion as was Secretary Bergland.

Dairy product prices have actually risen less than other food costs, or the overall index of consumer items. For example, in 1978 the average U.S. factory worker labored 8.6 minutes to earn enough to buy a one-half gallon of milk. That was compared to almost 11 minutes in 1965.

We have important legislation here, and I would hope that the committee would act expeditiously on it.

I will introduce into the record copies of the legislation under consideration in today's hearing, S. 6, S. 80, and S. 910 with accompanying staff explanations of each bill and departmental views.¹

I would yield to my colleague, a far more senior Member of the Senate, Senator Nelson; a man who knows far, far more about the whole dairy industry of this country than I could ever hope to learn. He was in the forefront for years and years before I came to the Senate, protecting the very legitimate interests of dairy farmers. Senator Nelson?

STATEMENT OF HON. GAYLORD NELSON, A U.S. SENATOR FROM WISCONSIN

Senator NELSON. Mr. Chairman, I would first ask unanimous consent to have my statement printed in the record in full.²

Senator LEAHY. Without objection.

Senator NELSON. I will just read a few brief excerpts. I appreciate the opportunity to testify on behalf of both S. 80 and S. 6. I introduced S. 80 with Senators Huddleston, Proxmire, McGovern, Riegle, and Moynihan. S. 6 aims to achieve exactly the same purpose as S. 80—extend the 80-percent minimum price support level for 2 more years.

As you know, the Food and Agriculture Act of 1977 raised the minimum dairy price support level from 75 percent to 80 percent of parity for a 2-year period, which ended September 30, 1979. All other sections of that act were authorized for 4 years, but the dairy price support provisions were only authorized for 2 years.

I have just a couple of statistics that substantiate the assertion that by any measure, dairy products remain a bargain to the American consumer. Between 1967 and 1978, the Consumer Price Index indicates that dairy products increased by 86 percent, while

¹ See p. 62 for reprints of S. 6, S. 80, S. 910 with accompanying staff explanations of each bill and views of the Department of Agriculture.

² See p. 29 for the prepared statement of Senator Nelson.

all other food prices—that is, the overall increase in other food prices—rose 111 percent.

Yesterday, I asked my staff to check on how much water costs in the grocery store. Our farmers in Wisconsin are getting 95 cents a gallon for milk. We found that a gallon jug of spring water costs from 69 cents to \$1 in the grocery store.

Senator LEAHY. Think of how much more it would cost if they added the chlorine.

Senator NELSON. In 1950, a worker had to work, in manufacturing, 16 minutes to earn enough to buy a one-half gallon of milk. Today, it takes less than 9 minutes.

Now, the question of what the price support level for dairy products ought to be was studied earlier this year by the Congressional Budget Office. On April 11, 1979, Dr. Alice Rivlin, director of the CBO, testified before the Dairy and Poultry Subcommittee of the House Agriculture Committee. In her statement, Dr. Rivlin testified as to the CBO's analysis of the effects of milk price supports at four alternative support levels—75, 80, 85, and 90 percent of parity.

The major conclusion of this analysis is that adequate supplies of milk will be attained with the support price at the current 80 percent of parity. The CBO found that there is somewhat greater risk of price instability and interruptions in supply which would result from 75 percent of parity.

Dr. Rivlin had the following comment on maintaining 80 percent of parity:

If the minimum support price is continued at 80 percent of parity for the next 5 years, annual receipts from the sale of milk would average about \$18 billion and annual retail spending for dairy products would average \$37.3 billion. In real terms, the incomes of dairy farmers and the retail prices of dairy products would continue at current levels.

Agricultural economists from the University of Wisconsin have done studies over the years on the work patterns of the Wisconsin dairy farmer. The average workday of a Wisconsin dairy farmer is from 10 to 12 hours, and his wife also works about 4 hours in farm-related activities.

During the haying and seeding seasons, they work an additional total of 4 to 6 hours. Of course, as you all know, in the dairy industry Sunday is not a day of rest, and neither is Thanksgiving Day, Christmas, or birthdays; you milk cows twice a day, 365 days a year.

To get a better picture of the average dairy farmers in Wisconsin, Truman Graf—a noted agricultural economist at the University of Wisconsin in Madison—studied the statistics collected by Wisconsin's most efficient dairy farmers. He concluded that most farm families in the State of Wisconsin earned around \$10,000 for all of their work in 1978, and some earned less.

Translated into other terms—and I wish to emphasize this, Mr. Chairman, although I am sure you are aware of it in your own State—the compensation received by Wisconsin dairy farmers and their families for their work, on an hourly basis, was less than the minimum wage, ranging between \$1.70 an hour to \$2.60 an hour, computed on a 100-hour-per-week, 52-week-per-year basis.

There are no other members of our producing society who work 100 hours a week; the farmers do. They start at 5 in the morning and they are through at about 8 at night. Operation of the average Wisconsin family dairy farm requires 1½ man-years of work, with the husband doing full-time farmwork and his wife and children contributing half a man-year. So when you have a \$10,000 income, you have got to divide it by one and one-half people in order to find out what they are earning per hour.

As you know, Mr. Chairman, there are no people in America, that I know of, who would work 365 days a year, every Sunday and every holiday, for \$1.70 to \$2.60 an hour. That is why it is incredible to find many consumers and consumer groups and many in the news media opposing dairy price support levels at 80 percent of parity.

The question that should be asked of those who oppose this legislation, Mr. Chairman, is who in their organization is working 100 hours a week; who in their organization is working at below the minimum wage? I am sure that these consumer groups are well-motivated, honest, and decent people, and I am sure it is their ignorance of dairying that causes them to come in here and take such a stand.

It is incredible to find this kind of opposition. Everytime I have supplied these statistics—and we have had editorials even in my State in some of the metropolitan areas—the critics are absolutely astonished; they did not know that dairy farmers put in that many hours. They did not know what their level of income was; they were astonished to know that there was not a single soul in their organization working at anywhere near that low an hourly rate. Usually, you never saw another editorial out of them, once they had the facts.

Not infrequently, those of us who support the 80 percent of parity level are asked why the American public should continue to subsidize the dairy farmer. I point out that they are asking the wrong question. The right question is this: How much longer can the dairy farmer be expected to continue to subsidize the consumer?

When anyone efficiently produces a good product for a low return on one's labor and, most of the time, little or no return for investment or management—under those conditions, it is the producer who is paying the subsidy, not the consumer.

Senator LEAHY. I appreciate your statement here today, Senator Nelson. As I said, you have been in the forefront of trying to protect the legitimate interests of the dairy farmers.

It is ironic to me that in this country today, just about the only necessity that we are absolutely totally self-sufficient in is food, and we seem to want to take policies sometimes to put ourselves in the same position we are in with energy, where we are going to have to import food.

Obviously, here is a food product that is nutritionally beneficial, and it is best for the economy of the country when it is indigenous and we should be trying to support it. I thank you very much for coming over here today, sir.

Senator NELSON. Thank you.

Senator LEAHY. The next witness will be Howard Hjort, the Director of Economics, Policy Analysis and Budget, U.S. Department of Agriculture.

STATEMENT OF HOWARD W. HJORT, DIRECTOR OF ECONOMICS, POLICY ANALYSIS AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY SID COHEN, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE; AND BILL MOTES

Mr. HJORT. Thank you, Mr. Chairman. I have with me today two members from the Department that are well known, I think, to the members of the committee and to the dairy interests: Sid Cohen from the Agricultural Stabilization and Conservation Service, and Bill Motes, who is presently on our staff and formerly was working fairly closely with some of the members of this committee.

Senator LEAHY. We are very happy to have both Mr. Cohen and Mr. Motes here for their contribution.

Mr. HJORT. Thank you. What I would like to do, with your permission, is have the prepared statement inserted for the record. I could talk from it briefly, and then we could respond to any questions that you may have.¹

Senator LEAHY. I appreciate that, and it will be made part of the record.

Mr. HJORT. Thank you, Mr. Chairman. Our basic position on S. 6 or S. 80 has been reported to Chairman Talmadge, in letters on June 12 and September 24. The administration supports the enactment of a bill with those provisions, but recommends that it be amended to give us more flexibility to manage the dairy price support program. It is basically the reasons for that recommendation that I would like to go over with you today.

As we pointed out in our prepared statement, we believe the dairy program has worked, and worked quite well over the years. We believe that the present policies are the appropriate ones and that they serve both the interests of our producers and consumers in a balanced and reasonable manner.

In recent times, market prices have been above the support prices for dairy products, even though the basic conditions have been relatively favorable for producers to increase production. And the consumption requirement has been relatively strong.

As a result, we find ourselves today with relatively low stocks of dairy products owned by the Government. We have been in a situation over this past year where more has been consumed, in total, than has been produced. So, in September, the market price for milk was about 14 percent higher than 1 year ago.

With this basic condition, and with strong price prospects for the near term, the administration increase the support level to 80 percent of parity on October 1, even though the Secretary had the authority to establish the price support level for milk anywhere between 75 and 90 percent of parity.

If we could be assured that the kind of conditions that we have observed in the last 2 years, or so, would continue into the future, there would not be any hesitation whatsoever to simply support an extension of the 80 percent minimum. But none of us knows what

¹ See p. 32 for the prepared statement of Mr. Hjort.

the future holds, and in the present circumstance, there are some indications that we believe are cause for concern, or at least serious consideration.

Senator LEAHY. What are some of those indications?

Mr. HJORT. The first one is that our dairy herds have been heavily culled in recent years; in part, because of high hamburger prices and the prices for culled cows. When we go through such periods, we improve the quality of the basic dairy herd. The production potential of this herd that we now have is going to be considerably above the production potential of that which it replaces.

In the initial stages of that improvement, you do not get great gains in productivity, because the young animals that coming into the herd are not as productive, in many cases, as the one that leaves. So there is a timelag. But it is virtually certain that we will see a return to the kind of continual increases in productivity that the dairy industry in this country has been noted for over a long period of time.

While production over this past year has been up, as I indicated earlier, but less than the increase in consumption, in the last 3 months we have seen what appears to be a change. In June, milk production was up 1.2 percent; in July, 1.6, and in August, 1.8 percent. The September report will be out on Monday.

The interesting thing about this is that the two largest dairy producing States—Wisconsin and California—are the ones that have shown the largest increase; in the last month, 6 percent. So it may be that we are starting to see the increase in milk production.

Second, our studies show that price supports at 80 percent of parity will continue to provide strong economic incentives to producers and will probably continue to encourage producers to increase production. However, both market prices and price supports very likely will exceed cost of production for the 1980-81 period, even though costs will increase as well. We have seen a significant increase in the price of feeds for dairy animals recently, mainly because of the grain price increase in late May to early June. But since then, grain prices have actually come down a bit.

The other factor is on the demand side: What are the demand prospects for dairy products? Clearly, 1980 is not going to be a very favorable year for the national economy. We could see some resistance to price increases starting to develop because of relatively slow growth in income.

We have other even more specific near-term warning signs. We have talked about the production increase, but we have found ourselves now, after increasing the support level on October 1, with market prices at support levels, and in some cases, below.

We are now buying nonfat dry milk. We started to buy butter this week, and we expect to be buying some cheese in the next few days. So we are in a situation where we could be accumulating some reserves. We are entering the period when supplies normally would be the tightest.

As I say, none of us knows what is coming in the future. These are signals that suggest the need for some flexibility. The proposition that we make to you has been described in the letter of September 24, to Chairman Talmadge. We described it as a need

for a trigger or a circuit breaker. Let me just give a few comments about that proposed amendment.

First, it would be permissive; it would not mandate anything; it would be permissive. It does not direct the Secretary to change any current or future price support level. If the mechanism triggers—and we use two quantity triggers in here, based upon past history—then the Secretary would have to make a determination as to whether the “trigger” amendment would permit him to decide whether or not to go ahead with changes in the support level required by the normal annual adjustment procedures.

Second, the amendment does not give the Secretary authority to lower support levels during the marketing year. If the proposed amendment were in effect and net removals exceeded the trigger level, he would not have more authority to lower price supports than he does now. He will, under this amendment, though, have more flexibility about an increase in the level of price supports.

That, basically, is what has been proposed. We recognize that this kind of a proposal has not been tried, and so none of us is assured that it would work. We are willing to consider any other modifications. However, I think for our dairy industry, one of the worst things that could happen is to find ourselves in a position in 1981 where costs to the taxpayer are excessive and stocks have reached a level that is an embarrassment.

In those circumstances, it would be highly likely that people would propose much more serious modifications in the basic dairy policies that this country has followed for years. Frankly, we believe, as I have said, that the dairy policies that we have operated under have tended to serve this Nation very well. Thank you.

Senator LEAHY. Thank you very much. I expect that Senator Huddleston and I may have followup questions for the record, and we will send those to you.

Mr. HJORT. Thank you.

Senator LEAHY. The next witnesses will be Lloyd Patterson, Green Mountain Dairy Federation, St. Johnsbury, Vt., and also Mr. Robert Rumler, the executive chairman of the Holstein-Friesian Association of America of Brattleboro, Vt.

For those of you who are not familiar with Vermont, we have gone from the north to the south of Vermont; we have even tried to provide some Vermont-like weather for you folks this week. On Tuesday morning when I woke up in Vermont—my wife and I had been up there for the weekend—I found an inch of snow on our front lawn.

In the evening when I called my parents, who live nearby, I found they had almost 6 inches of snow by the end of the day. Yesterday morning, driving into work, one of the local news stations was talking live on the phone to the manager of the Jade Peak ski area. The manager told them that they had about 20 inches of snow up there in the last day or two.

The reporter said, “Well, then, you are ready to start skiing.” They said, “Oh, no; that just sort of gets us started. We will get going pretty soon, but we need another 20 inches or so to get a good, solid base.” The reporter said, “Everything must be stopped up there.” They said, “No; somebody who came to work at 5 in the

morning was about 10 minutes late because the 20 inches slowed him up."

I chuckled, because down here, with the threat of snow the other morning, they went into some kind of a crash alert, so all of our children were out of school by 1 in the afternoon. So things are different down here with the snow.

Gentlemen, I am glad to have you here. Mr. Patterson, why do we not begin with you and then go to Mr. Rumler.

STATEMENT OF LLOYD H. PATTERSON, PRESIDENT, GREEN MOUNTAIN COOPERATIVE FEDERATION, ST. JOHNSBURY, VT., AND PRESIDENT, CABOT FARMERS CO-OP CREAMERY, CABOT, VT., AND CHAIRMAN, DAIRY COOPERATIVE COORDINATING COMMITTEE OF THE NORTHEAST

Mr. PATTERSON. Thank you, Mr. Chairman. I am a dairy farmer from St. Johnsbury, Vt., I would like to reemphasize that I am a dairy farmer—nothing more, nothing less. I am sure my words will not be very elegant here today, but I do want you to know that I am very sincere.

I am also president of Cabot Farmers Co-op Creamery in Cabot, Vt., and also president of Green Mountain Cooperative Federation. This group includes nearly every dairy cooperative in the State of Vermont. I am also chairman of the Dairy Cooperative Coordinating Committee of the Northeast. This group is composed of all the major dairy co-ops in New England and New York. It also includes one co-op who ships into Federal order No. 4. I will list the names of these cooperatives later on. It is estimated that the coordinating committee now represents, through its member cooperatives, over 22,000 farmers.

The long planning horizon in dairy farming relative to other agricultural enterprises requires more price stability and longer range price assurances. If there is one thing the dairy industry cannot stand, it is the roller coaster prices take when parity is too low.

Dairy farmers of the Northeast need stability in prices if they are to continue to make the investments necessary to provide this nutritious product now and in future years.

The University of Vermont, in its analysis of some Vermont farm records through its Elfac program, shows that in spite of the increased support price in April and October, farm expenses are still escalating faster than income. The two most important factors affecting expenses recently are the rapidly rising costs of interest and energy. I do not know if this is true in other sections of the country or not. I only claim to represent the dairy farmers from the Northeast.

If you want the actual figures on the Vermont farmers' income and expenses, I would be most happy to obtain them and provide them for you.

The uncertainty of the current economy requires a strong signal of adequate prices to keep dairy resources in production. It is very difficult to bring resources back into production once they have been forced out by temporarily low prices.

Support prices have been at or above 80 percent of parity for the past 13 years. Yet, supply and demand were in near perfect bal-

ance in 1978. This should indicate that 80 percent of parity, with current technology, is not too high. I believe a floor of 80 percent is needed as a bare minimum to give the dairy industry the stability needed to keep supply and demand in balance.

I believe the semiannual review is necessary, in the face of current inflation, to dampen the size of the price increases. Without the semiannual review in April of this year, I believe the increase on October 1 of this year would have been about \$1.58 per hundredweight, or about 4 cents per quart. I think it is nice that we can get those increases twice a year rather than once.

I believe that 2-year safety valve in this proposed legislation would be an adequate guarantee for Congress, even if production does surge. However, lower than an 80-percent support price could send the wrong signal to dairymen and ultimately require even larger price increases to recall an adequate supply.

I told you in my opening remarks that I am a dairyman. I neglected to tell you that ours is a very definite family operation. We have a son and a son-in-law in business with us, and we are most interested in seeing stability in dairy prices, not only in the immediate future, but in the long-range time frame as well.

I believe that a minimum support price of 80 percent of parity is beneficial to the dairy industry; I believe it is beneficial for the consuming public and, yes, I believe it is beneficial for the Government of this great United States.

Thank you kindly for your time, patience, and understanding. Before I close, I just would like you to know and I would like these other people to know that the agricultural people from the Northeast are most appreciative of your efforts and most thankful, and we are most proud of you, Mr. Chairman. Thank you very much.

Senator LEAHY. Thank you, Mr. Patterson; I appreciate that very, very much. You know, having you here, as a person who runs a dairy farm, and runs it on a family farm basis, means a great deal to all of us here, because we can go and look at the theoretical aspects of it all day long, and get little from our labors.

My background, as you know, is as a prosecutor, not as a farmer, and yet the first committee that I asked to serve on when I was asked to list my choices—my No. 1 choice, my No. 2, and my No. 3 choice were all the Agriculture Committee. I wanted to make sure they understood that before I went to list subsequent choices.

I really feel strongly about this idea that the one necessity that we have in this country that we are still self-sufficient in is certainly not energy; it is food. We have got to maintain that self-sufficiency.

I think it is also safe to say, Mr. Patterson, that your operation—with family and in-laws in the operation—is really typical of what we see throughout the northeastern part of the country, is it not?

Mr. PATTERSON. I believe so.

Senator LEAHY. I have spent enough time going around to various farms; I have some cousins, who have farms. The farmers, I must say, are kind enough to take me around and not laugh when I make a mistake on the breed of a particular animal, or if I stumble around the barn. They are very good; they even remind me, when one of the news photographers wants a picture of me milking a cow, to warm my hands first.

Mr. Rumler is the executive chairman, of the Holstein-Friesian Association of America. We Vermonters are pleased that the executive chairman is a Vermonter. Normally, when I watch your schedule, you seem to get around more than I do. You seem to be enjoying the shuttling back and forth from Vermont to Washington as much as I do.

We are pleased to have you here, sir, and please feel free to give your statement.

**STATEMENT OF ROBERT H. RUMLER, EXECUTIVE CHAIRMAN,
HOLSTEIN-FRIESIAN ASSOCIATION OF AMERICA, BRATTLE-
BORO, VT.**

Mr. RUMLER. Thank you very much, Mr. Chairman; I appreciate that.¹ Just for the record, I am Bob Rumler, executive chairman of the Holstein Association. Today, I have the privilege of representing not only the 40,000 members of the Holstein Association, but also the actual breeders who are members of the American Guernsey Cattle Club, the American Jersey Cattle Club, the Ayrshire Breeders Association, the Milking Shorthorn Society, and the Brown Swiss Cattle Breeders Association. In all, that totals something over 50,000 or 55,000 active breeders, dairymen, and leaders in the industry.

On their behalf, and in the strongest possible terms, we would urge this committee and the Senate to adopt the principles and the basic proposals set forth in your proposed bill, as well as that of Senator Nelson, which is S. 80.

As an expediency, Mr. Chairman, we would urge the committee perhaps to consider the adoption of the wording of H.R. 4167. We say that in order to avoid the possibility of conference committee action, feeling quite confident that this committee will recommend it to the full Agriculture Committee, and ultimately the Senate will act favorably on this type of legislation.

In making this proposal, I think we properly imply the urgency that we feel is appropriate for this legislation, and the action which is needed by the dairy industry. We have suggested this from the very beginning, in the sense that we were hopeful that consideration of this action and the extension of the support level at the minimum of 80 percent would be acted on to assure the dairy industry of its stability before action was taken on MTN; that did not take place.

The fact that it did not take place, to me at least, suggests even more the urgency of this action at the present time.

The dairymen that I am privileged to represent, insofar as the subject of milk price stabilization programs and the 80-percent minimum are concerned, do not feel that this support level or the role of support prices is necessarily to enhance the income of the dairy farmers. Its purpose is to stabilize a long cyclical industry, which is terribly important.

Senator LEAHY. Could I interrupt, Mr. Rumler?

Mr. RUMLER. Yes.

Senator LEAHY. Are we facing nationwide a situation where we have a very real threat of our dairy industry declining, with the

¹ See p. 34 for the prepared statement and supporting material of Mr. Rumler.

dairy farms disappearing, and then the open land being turned into building developments, or a host of other things?

Whatever the new use is, it is not an agricultural use, and without some kind of stability in there, aren't we losing agricultural land in the bargain? Is that not a real danger today?

Mr. RUMLER. Well, I think there is no question about it, Mr. Chairman. That is a real threat, and that perhaps is the fundamental reason why, in a long cyclical industry like the dairy industry, it is important to have stability determined at some time down the road, or continuing someplace down the road.

I think it was only recently that the Secretary of Agriculture made a statement that one of the problems facing dairy farmers today is whether to produce milk or sell for beef. You and I know the price of beef, so it is really inviting to disperse a herd and take advantage of the beef prices at the present time.

In connection with that, we must consider one further statement that has been made, also by the Department, and I think it is quite valid, and that is, because of herd depletion, we may cause these uncertainties, but to come back to a reasonable level of production to meet domestic needs, the cycle is going to take about 36 months, so that after it is determined to increase production at, say, the farm level, we are 36 months away from increasing that production to bring it back to meet the supply, if, in fact, we do deplete our herds.

Now, the beef industry is a case in point; we should not have to go through that in the dairy industry. I think that this legislation is directed toward that end, and therefore I think the urgency of our consideration of this legislation at the present time is underscored more by the point you made than it is for the immediate future, although we have to take each step at a time.

In this connection, for the record I would take very strong objection to Dr. Hjort's introduction of the trigger mechanism, insofar as the price support program is concerned, because it does not augur well for stabilization within the dairy industry.

Senator LEAHY. The trigger mechanism is not in the House bill, is it?

Mr. RUMLER. No, it is not, and it should not be. I have the feeling, and I will say it publicly, that he was really laying the groundwork for some time in the future. In that same sense, I would like to lay the groundwork and say I think it would tend to negate the whole principle that is involved in this, and therefore plant the seeds for destroying the stability which has been provided through this price stabilization program and the underpinning that we have to maintain a stable industry within the country.

Senator LEAHY. As a practical matter, I think we know that at some point a discussion or debate of the trigger mechanism will come up.

Mr. RUMLER. I am sure it will.

Senator LEAHY. I personally think that the appropriate place would be within the next omnibus farm bill, and that would be the time, rather than in this legislation.

Mr. RUMLER. I think we will find it there, probably.

Senator LEAHY. I know it is going to be there, but I would rather see it discussed as part of the overall farm picture, and I think the

debate on it would be put in a far better context at that time. I agree with you that it should not be part of this legislation.

Mr. RUMLER. I think, Mr. Chairman, I would like to conclude by saying that we applaud the action of the Secretary in setting, although he did not have to, the price support for the next 6 months at 80 percent of parity. Again, I think that suggests a feeling within the Department and expresses the opinion within the industry.

But, of course, a 6-month interval is not enough to provide stability for an industry which would take a minimum of 36 months to restabilize itself if it got in a difficult position or if the Nation's consumers found themselves in a deficit producing situation.

With that, I would ask your permission to introduce the prepared testimony for the record, along with the appended items, in support of the proposals and with the hope that the committee might consider using the wording of the House bill in the interest of expediency, and expediency is my concern. Thank you.

Senator LEAHY. Thank you, Mr. Rumler.

The committee calls Irvin Elkin, the president of the Associated Milk Producers of Amery, Wis., and also Patrick Healy, the director of the National Milk Producers Federation.

STATEMENT OF IRVIN J. ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC., AMERY, WIS.

Mr. ELKIN. Thank you, Chairman Leahy. I would have to start by saying I am very pleased to have the opportunity to testify on behalf of the extension of the 80 percent of parity minimum. You can call it S. 6, S. 80, or the House version; what we are more interested in is the result, and we know we are talking pretty much about the same thing.

I would also like to say at this time that this has really been our program in AMPI for several years now. We have opted for stability, and felt that it could only be achieved at higher levels. In fact, I am almost compelled today to say that, "Hey, they are singing our song," so I am pretty pleased about the whole thing; I will have to say that.

I might also say that I am pleased that Bob Rumler's testimony tracks very closely with ours, because I would have to say that many of the people in the breeder organizations that he represents are members of ours; of course, myself being one, and others. We are pleased that we are consistent in that.

I might say also that I think virtually the entire dairy industry is united on this issue of 80 percent being the appropriate level. It is probably the first issue we have been united on for a long time, and I think it is worthy of note at this time that we make that statement. I hope it will not be the last time; I think we should be more consistent in our testimony. I know it is helpful to you and others.

I am Irvin Elkin, a dairyman in Wisconsin, and I was pleased to have Senator Nelson testify this morning. I agree wholeheartedly with the comments he had to make.

Senator LEAHY. I am sure you realize that both Senator Nelson and Senator Proxmire have been strong allies and supporters of

the dairy industry in Wisconsin and the rest of America. Both have been recognized and applauded as leaders in this area.

I have looked around at the various people here. I think it is fortunate that we have people who are sympathetic in this area. The regular chairman of this subcommittee, Senator Huddleston, for example, from Kentucky has taken a strong interest in this. His expertise is recognized by all members of both parties on the Senate Agriculture Committee.

I remember in my first week here being told by Senator Hubert Humphrey that Senators Huddleston and Nelson were two men to rely on very much in this area for their expertise and their statements. So you can be awfully proud of Wisconsin for having them here.

Mr. ELKIN. Well, we are, and as they know, dairy is pretty darned important to Wisconsin; it is our basic industry.

Senator LEAHY. I know.

Mr. ELKIN. We are pleased to hear that and are aware of it.

I would go on to say that I am a dairy farmer; I milk 40 Holstein cows and have a herd of about 80 head at all times. I have a son fulltime on the farm with me, and it is a family farm operation. I am also president of Associated Milk Producers, as you pointed out; I have been president since December 1974.

Today, I represent about 32,000 members located in some 20 States throughout the middle part of the country, from Houston to the Canadian border. Our purpose, of course, is to maximize the return to dairy farmers, and we do this, we hope, through dependable daily outlets for milk which our members produce, and also adequate and stable milk prices; that is very important. We have heard stability mentioned here, and we believe very strongly in that.

I have about 12 pages here that I would like to submit. I will just try to summarize and go through it as quickly as I can.¹

Senator LEAHY. It will be made part of the record.

Mr. ELKIN. Thank you.

Our marketing system depends upon Government participation, and we are very up front about that. We are pleased that we do have a minimal government involvement in our various programs; we think they are very important, and that is why we are here today.

We depend on Federal and State milk orders and milk price supports, which we would like to characterize, and we have used the terminology often, as a price stabilization program, because it is in the public interest and does serve the consumers. It stabilizes the price to the dairy farmer in the spring when we produce somewhat more than is needed, and then stabilizes the prices to the consumer in the fall when we may produce somewhat less, and that was pointed out earlier by Dr. Hjort, through the sellback, and so on. So we understand the program and certainly applaud its workings.

We also rely on restricting imports, and that is why we oppose very strongly the dairy concessions made in the recent MTN trade bill. We believe, of course, in strong farmers cooperatives, because

¹See p. 41 for the prepared statement and supporting material of Mr. Elkin.

we believe that cooperatives do in this country what the governments endeavor to do in many foreign countries.

I had not really meant to talk about the trigger, but I want to make one comment, because it was brought up. In my statement, I say that we have many attacks on the system, and even though most of those attacks can be attributed to the self-serving motives of the critics, they are damaging and they do prompt tinkering and erode the performance of the marketing system.

The system has been around a long time, and we believe in updating and improving it. But we do have a problem with tinkering with little parts of it to change the whole program. I would like to cite two examples of what this trigger may have done, had it been in effect or been used.

One example, which we will bring to you a little bit later in some charts I would like to show you, would be in 1974 when, because of heavy imports, it appeared that we had too much product; you know, we pushed the imports on our own production. Then we would have had to possibly impose some—it would have triggered and we would have had a lowering of prices.

Then in 1977, because of our own domestic production, followed by the increase in price support levels in 1977, we had a surge in production, which we had to live with for a few years to get back into the stability that we had enjoyed before that.

Those were two times when it would have been triggered, and I would cite that both times they would have been in error, because they would have followed with shortages. That is an example of a tinkering with the system that would have caused problems.

We cite the consumer price index as an example to show that price supports have been in the public interest. On page 5, against all foods and all items, dairy products increased less than both, and those are, I think, good guidelines to use.

We talk about efficiencies throughout here; average milk production per cow has more than doubled since 1949. That allows me to make a statement which I have used many times; that, as against, say, 25 years ago in the dairy industry, we now have 10 percent as many dairy farmers milking half as many cows and producing just as much milk as at that time. I think that that is almost an alarming example of efficiency in production that we have been able to accomplish.

Consumers have benefited by this. You started out your statement by mentioning the real price of milk—the minutes of work needed to buy 1 pound of butter and one-half gallon of milk. We also cite that for you.

We would like to make a strong statement. We maintain that the Nation's dairy herd is a valuable national resource that merits public insistence upon its preservation. That tracks with what you said; we are self-sufficient. It seems foolish for us to toy around with this.

In fact, I heard a statement recently, attributed to one of our own Senators back in 1969, which said we should quit paying these exorbitant prices for domestic oil and avail ourselves of these cheaper foreign sources. That is now coming home to haunt us, and we hope that we are not foolish enough to let that happen in dairy. I do not think we are.

I would like to have you, if you would, turn to the first exhibit at the end there, and I would verbalize what we have on the charts here for those who do not have them. As far as the instability we had that cropped up its head in 1973, 1974, and 1975, I think we have a very visual example on our charts of what can happen when we tinker with the system.

In 1972, there was a failure of the then Secretary of Agriculture to raise supports when we felt they should have been raised, and it is apparent that they should have been raised. We had all kinds of volatility. Between 1967 and 1971, I cite that we had the price support program working the way it should have; we did have support levels at 80 percent and above. We had stability; we had the program functioning.

We had a period from 1972-75 or 1976 where we had all kinds of volatility. We had consumer reactions and we had boycotts. We all lived through it, but we were very unhappy with it at the time. We had imports breaking the price; we had 102 percent of parity levels in the market, and we had 92 percent parity levels.

This was not good for consumption; we do not think the consumers were buying as much product as they should have been for their nutrition, et cetera. We had all kinds of instability.

I would just like to include that. In 1977, Secretary Bergland saw the problems inherent in that; he mentioned the boom and bust and the stability. He did announce a price of \$9, or 83 percent of parity, in April 1977.

We would contend that a certain amount of stability has returned back into this, and I think our choice at this time is to either continue that stability or go back into the boom and bust that we had to live with for so many years.

Is my time up?

Senator LEAHY. It is, but if you have another point to make, go ahead.

Mr. ELKIN. Well, I would just quickly summarize that, really, what the dairy price stabilization program endeavors to do is to find an appropriate level between me as a dairy farmer and my willingness to produce, and the consumer's willingness to purchase and consume.

We feel that that level is appropriately at 80 percent or above. We have found that the consumer will pay 80 to 85 percent of parity; we found that he will not pay 95 and 100 percent.

Surely, we are selfish in looking at what is good for us, but it is in the public interest to keep these prices more stable. We contend that in order to do that, we have to be looking at a level at 80 percent or above.

With that, I would thank you for your time and submit this into the written record.

Senator LEAHY. Thank you, sir, I appreciate it.

Mr. Healy is no stranger to this committee. When I first came on here, they looked at the name "Patrick Leahy" as a member of the committee and assumed that I was just sort of a backstop to Mr. Healy, who has always been considered a member of the committee anyway.

We are delighted to have you here, Mr. Healy, and please go ahead with your statement.

Mr. HEALY. Thank you, Mr. Chairman. I am delighted to be here. I have a statement which I would like to submit for the record, and I would like to quote briefly from it to you this morning.¹

Senator LEAHY. The full statement will be made part of the record.

STATEMENT OF PATRICK B. HEALY, SECRETARY, NATIONAL MILK PRODUCERS FEDERATION

Mr. HEALY. Legislation to extend, through September 30, 1981, the minimum 80 percent of parity price support level has the full support of the National Milk Producers Federation as a means of achieving the ends of the price support program.

The prime intent of the price support program, as you and others have pointed out, is quite often not fully understood. The prime focus of the legislation is the assurance of an adequate supply of milk to meet the needs of our market and to provide stability of supply and of price both to farmers and to consumers in the market. The directive in the law with regard to farm income is based on the need to do so in order to achieve adequate supplies of milk.

In order to obtain the necessary production, it is necessary to maintain a level of farm income sufficient to induce farmers to make the investment, to accept the risk, and to devote the labor and management necessary to bring about needed production.

At the present time, milk supply and demand are in very close balance. As a matter of fact, 1978 witnessed an almost perfect balance; 119.2 billion pounds of milk were marketed off the Nation's farms last year, while USDA reported domestic commercial demand at 119.3 billion pounds.

In 1978, purchases by CCC of dairy products were down significantly. Commercial stocks at the end of the year were at their lowest level since the serious depletion which occurred at the end of 1975.

The reduced level of CCC purchases and the drawdown in inventories has continued through this year. Since farm marketings and commercial demand almost exactly equated in 1978, the commodities purchased by CCC represented almost entirely unnecessary imported milk.

This is a situation which will be greatly aggravated when the agreements reached under the MTN go into effect on January 1. These negotiations resulted in the United States agreeing to a substantial expansion of dairy product imports, most of which will be able to enter the market only because of substantial export subsidization.

This will be the equivalent of adding almost a billion pounds of milk to our supply, which can only be offset by reducing production by our own more efficient farmers by that amount. This is a situation which America's dairy farmers cannot understand as being necessary or reasonable.

During 1979, there has been a moderate expansion of milk production. Through August of this year, production was 83.8 billion pounds, compared with 83.2 billion pounds for the same period last year. The 1979 output, however, was still slightly below the 1977

¹ See p. 48 for the prepared statement of Mr. Healy.

output which saw 83.9 billion pounds produced during the first 8 months.

This expansion has enabled the orderly restoration of commercial dairy stocks and has met the needs of the market. Strong demand has been a major feature of dairy markets in the last 2 years; 1978 witnessed an increase in per capita consumption of milk and milk products from 551 pounds in 1977 to 558 pounds in 1978.

While USDA has predicted that the growth in milk consumption this year will be below the 1970-78 growth trend of about 1 percent per year, it is anticipated that commercial consumption this year will be above last year's level, particularly when one considers population growth.

There is no magic or secret as to what must be done to assure the production of any commodity. Some means must be found to provide the return needed to induce producers to devote the resources necessary to obtain that production. In the case of milk, in 1978 it took a total of \$12.7 billion in farm income to bring forth 119.2 billion pounds of milk marketed by farmers.

To continue to meet the demand of the market, it will be necessary to put the equivalent of 12.7 billion 1978 dollars on the Nation's dairy farms. The price support program has proven to be an effective instrument in guiding the market toward price levels that will achieve that goal, while providing a degree of price assurance so that farmers can plan their operations with confidence and assurance.

Since it took a price support level of 80 percent of parity to achieve the balance in 1978 and to maintain that balance into this year, every indication points toward this minimum level of support being necessary to maintain this through 1980 and 1981.

The Nation has continued to face an inflationary spiral that has touched everyone. Food prices have risen. The costs of those items needed to produce, process and transport that food have risen as well. Too often, we hear that the single, simple answer to inflation is to, in the case of the dairy industry, reduce milk prices. Such an assertion is based on the erroneous assumption that the same quantity of milk will be forthcoming from our farms at lower prices. This simply is not the case.

A review of the performance of consumer prices in milk and dairy products demonstrates the beneficial effect of the program on consumer costs. I have in my statement the same material that has been put into the record regarding the milk price index, the consumer price index, the all food index; the Bureau of Labor Statistics numbers regarding the cost of dairy products in terms of minutes of work. All of these are real numbers, demonstrating the real cost of milk to the consumer today.

The dairy price support program is carried out by providing a degree of price assurance to farmers. If it operates as intended, the actual price received by farmers will be determined in the marketplace through much of the year. This is the situation at the present time.

Last month, farmers received \$11.18 per hundredweight for manufacturing grade milk. This compares with a price support level of

\$10.51 that was in effect until October 1. Thus, market forces are working to guide the farmers in their decisions.

Secretary of Agriculture Bergland has announced a price support level of 80 percent, or \$11.22 per hundredweight, for manufacturing milk, effective the first of this month. In view of the Secretary's action, one might question the need for this legislation. Approval of the pending legislation will signal dairy farmers that the stability and assurance that has permitted them to plan their operations in an orderly manner will continue for the next 2 years.

The dairy price support program has worked well and has met the mandate of Congress to assure adequate supplies of milk for this market. The amendments to the act provided by the Food and Agriculture Act of 1977—the 80 percent of parity minimum price support level and the requirement that the support level be adjusted semiannually—have strengthened the program and provided the basis for orderly growth and development within the dairy industry.

By any measurement, whether it be in terms of consumer costs, government expenditures, or farm income, the proper decision at this time is for the approval of the extension of the 80 percent of parity minimum price support level through September 30, 1981.

Mr. Chairman, I too, like Mr. Elkin, would like to address myself now to the trigger device that Mr. Hjort mentioned earlier. I did not include it in my statement because I had the assurance of the Secretary of Agriculture that it had been laid aside.

He proposed this in the House earlier this year. It was fully debated and fully discussed in the Dairy Subcommittee of the House Committee on Agriculture. Following that discussion, I met with Secretary Bergland, who told me that he had had his day in court; that the Congress—at least a part of it, in the person of the House Agriculture Committee—had put it aside and he was finished with it.

Secretary Bergland later came to my board of directors July 31, and I think I can quote directly from him. "We will support the price support bill with no strings attached."

It astounded me this morning to hear Mr. Hjort come before you and make representations concerning the trigger device. I think the important thing that is made manifest by these actions is inherent in the trigger device itself.

The price support program is meant to be a signal to dairy farmers that for this much time, their price will not go below this level. Therefore, "If you are willing to continue to produce, we will make certain that you get at least this for your milk."

This is the philosophy of the thing; this is the attitude expressed in the price support program that induces farmers like Mr. Elkin to devote his resources to the production of milk so that we do indeed have an adequate supply.

The trigger device goes just opposite to that. At some point, if that were part of the law, Mr. Elkin and the quarter of 1 million other dairy farmers scattered across this Nation would be apprehensive and would be fearful; "Will something happen that will make my commitment of these resources to this productive machine a mistake?"

I think the administration's movement from support of the trigger device to the rejection of it to, again, support of it is a manifestation of what might happen, should such a thing be put into law. We are told that just on the judgment of the moment, conditions may change. This manifestation of willingness on the part of the administration to change course makes it even more important that the integrity of the dairy price support programs be established at the 80 percent level for the next 2 years.

Senator LEAHY. I think we set the stage, as I mentioned earlier, for it to be part of the discussion of the next omnibus farm bill. Again, whether somebody favors or opposes the trigger mechanism, I think that that will be a matter of some discussion.

Mr. HEALY. It may well be.

Senator LEAHY. I would be amazed if it were part of any piece of legislation that would come out at this time.

Mr. HEALY. We certainly would hope not, Mr. Chairman.

Senator LEAHY. I understand.

Mr. HEALY. We need this assurance to continue our ability to produce milk.

Senator LEAHY. I think that this is not the time to go into that part of it. I may find that other members of the committee feel differently, but I do not feel it is.

Mr. HEALY. Thank you.

Senator LEAHY. Thank you both very much.

Senator Huddleston apparently is still held up at the White House, and we are going to take a 3-minute recess and then come back into the testimony.

[Whereupon, a brief recess was taken.]

Senator LEAHY. The next witness is E. Linwood Tipton, the executive assistant of the Milk Industry Foundation and International Association of Ice Cream Manufacturers, an association which has a very direct interest and legitimate concern in whatever happens to the price of milk, as one of the major purchasers of milk and milk products.

Mr. Tipton, I appreciate your being here. I think that as a major purchaser, your perspective is a very significant one and an important one. The committee has strived to make sure that we do not hear just from the production end, but that we hear from all points of view. Please go ahead with your testimony, sir.

STATEMENT OF E. LINWOOD TIPTON, ECONOMIST AND EXECUTIVE ASSISTANT, MILK INDUSTRY FOUNDATION AND INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

Mr. TIPTON. Thank you very much, Senator Leahy; I appreciate that. I would like to ask that my statement be copied in the record, and I will attempt to summarize some of the points.¹

Senator LEAHY. It will indeed be made part of the record.

Mr. TIPTON. Thank you very much.

I would like to say at the outset that we are very strong supporters of the milk price support program, and believe it serves a very important role. Without the milk price support program, we are fearful that prices would be fluctuating widely, as Mr. Elkin referred to, and that supplies might be quite erratic. Just to make

¹ See p. 50 for the prepared statement of Mr. Tipton.

sure there is no misunderstanding about that, we are very much interested in maintaining and supporting the price support program.

We are also interested, of course, that the price resulting from the price support program be at a reasonable level. We do have some apprehensions about the fairly rapid increases in support prices that have occurred recently. Several of the witnesses have already pointed to the changes in the consumer price index for a long period of time, and have indicated that milk prices over several years have not increased as rapidly as has the consumer price index.

However, in very recent years, that has not been the case. In the last 3 years, the milk support price program has increased rather substantially in excess of the consumer price index. In 1977, the milk price support program was up 9 percent and the consumer price index was up 6 percent; in 1978—and I am working off of October as the beginning of the price support year in each of those—the price support program was up 10 percent and the consumer price index was up 9. In October of this year, the price support program was 16 percent above the year earlier level, and the consumer price index was 12 percent above the year earlier level.

So, for the last few years, the price of milk has been rising more rapidly than inflation. When you compare the milk price support program, also, with the cost of production analyses that have been published by the Department of Agriculture, you find that the milk support price increase has been substantially in excess of the increases estimated by the Department of Agriculture as to the cost of production.

For the past year, 1979, they estimate that the cost of production went up 10 percent, whereas the milk price support increase, as I have already indicated, was about 16 percent. The year before that, they estimated that the cost of production went down, but the milk price support program went up about 10 percent. So we cite these as areas of some concern and something to be noted.

We also would probably take a somewhat different view than what has been expressed at this hearing with respect to the passage of these two bills that are before you. We do not believe it is necessary or advisable to pass them at this time.

We would look at the fact that support prices have been set at 80 percent of parity for the current year, and with the semiannual adjustments in effect, they will be maintained at that level until October 1979. We would anticipate that there are likely to be some rather substantial increases in milk production.

Now, I would be the first to admit that I have said that before, and it did not occur. I am really at a loss to explain exactly why that did not occur. I was not alone in expecting that there would be substantial increases in milk production; a lot of other people thought so too.

However, in recent months, there has been an increase in milk production; we are running about 2 percent above last year for the last couple of months. All of the factors that one would look at would indicate that milk production should be increasing, and so we just think it would be advisable, since we do have 80 percent of

parity, by administrative action, already in effect, to wait a while and see for sure what is going to happen on the milk production side.

The number of milk cows has been declining, but not at as rapid a rate as it was previously. Even with the very high beef prices that have occurred in the last couple of years, the number of milk cows has not declined as rapidly as people would have anticipated.

The milk-meat price ratio indicating the relationship between milk prices and beef prices has remained at a reasonable level; in fact, it has remained in an attractive position for milk for a good part of this time, and it is in an attractive position now, indicating that there would not be significant additional culling, as we would look at the situation.

Milk production per cow, which has been one of the major increases in our efficiency in the dairy industry over the years, has been rather flat for the last couple of years. However, it has begun to increase rather substantially, running at about 2 to 2½ percent above your earlier levels.

That is what we had anticipated would occur earlier. It now seems to be occurring, and if that continues, we would anticipate that milk production will increase rather substantially in the forthcoming years.

Well, those are our comments and views on the current situation. I would like to spend a few moments discussing a major study that we have recently undertaken of dairy policy, and my statement goes into this in some greater detail. But I would just like to summarize a couple of points in it.

Our members have been concerned about some of the issues I have just been describing, as well as some of the operations of the Federal milk marketing order programs, for some time, and feel that the time is appropriate, and it is necessary, that we take a good, hard look at both the price support program and the Federal order program, and the relationship of those two programs with each other.

About 10 years ago, only about 30 percent of the milk which was manufactured into manufactured products was produced in plants that were regulated by the Federal milk marketing order program. However, now, about two-thirds of all of the manufacturing milk is manufactured in plants that are under the Federal milk marketing order program, indicating that there is a substantial overlap of those two programs with respect to the milk that is regulated or subject to them.

We have experienced some rather severe difficulties in getting milk moved from some of the manufacturing plants into fluid milk bottling plants, and believe that some better coordination between the Federal milk marketing order program and the price support program would be helpful in that endeavor.

We appointed a committee of dairy policy experts about a year ago and asked them to develop and take a look at several alternatives to both the price support program and the Federal order program. We asked them not to make any recommendations as to which of those they would prefer or which they advocated, but merely to study them and to point out the impacts that each of them would have.

They have completed that work and have analyzed about four different price support alternatives and the estimated impact of each of those. They have also estimated the impact of changing several of the Federal milk marketing order program provisions. We have provided that to several of your staff, and we will be providing that to you and other members of the committee.

Senator LEAHY. I realize it is available now, and I am going to be anxious to read the alternatives that they have recommended; I suspect that most members of the committee will be too.

Mr. TIPTON. Thank you. That completes my statement. I very much appreciate the opportunity to appear.

Senator LEAHY. Thank you very much, Mr. Tipton.

I understand that Senator Huddleston just got up here from the White House and has now been waylaid on the floor with an appropriations bill—one that I will have to be joining him on.

We will go to Mr. Westwater and Mr. Tucker in just a moment.

[Whereupon, a brief recess was taken.]

Senator LEAHY. I apologize for the delay.

Mr. Westwater, of course, is no stranger to our committee, and not just on dairy matters but on agricultural matters, generally. He is a respected voice on both sides of the Hill. I am delighted you are here.

Mr. Tucker, I am delighted you could make the trip up from Kentucky. I just want to add that Senator Huddleston wanted very much to be here, and that is why we waited until now. Senator Huddleston, because of his committee assignments, is, as you know, one of the more influential Senators here and he is being tugged between duties on the floor and the President wanting to see him.

When the President calls and says he would like us to drop by, we usually make it a point to drop by, and I am sure you can understand that. I just wanted you to know that he told me that he could not be here and that I was to listen very carefully to both of you.

So, Mr. Westwater, why do you not start, and then Mr. Tucker, and I will listen carefully.

**STATEMENT OF JOSEPH WESTWATER, VICE PRESIDENT,
PUBLIC AFFAIRS, DAIRYMEN, INC., LOUISVILLE, KY.**

Mr. WESTWATER. By way of background, Senator, after graduate school at Boston College, I joined the Department of Agriculture in 1955 and, until 1969, worked as a marketing specialist and an economist in milk programs of the Department. In 1969, I joined Dairymen, Inc., and have, among other things, done much of their marketing and legislative analyses. Today, I am appearing on behalf of the dairy farmer members of Dairymen, Inc. Their farms are located primarily in the southeastern States of Virginia, North Carolina, South Carolina, Indiana, Kentucky, Tennessee, Georgia, Mississippi, Louisiana, and Alabama.

Our members respectfully urge you to approve the legislation pending before the committee to continue the minimum support level for milk at 80 percent of parity through September 30, 1981. Similar legislation has been approved by the House Committee on Agriculture and is awaiting action by the full House.

Senator, much of the next few paragraphs of my testimony go into the statistics which support the statement that the milk supply and demand situation of the Nation is in very good balance and has been so for several years. So I think I will skip those points and skip to what I think is a point that has been mentioned much before by others, but—

Senator LEAHY. Your whole statement will be made part of the record.¹

Mr. WESTWATER. Thank you, Senator. I think the point that we have to look at is that the number of farmers leaving dairying has accelerated in recent years, because of the attractiveness of other commodities, because of the work involved in dairying. I think a good indication of the rapid flight from dairying is that when I joined Dairymen, Inc., or shortly after, we had over 10,000 dairy farmer members. We are now down to 6,300 members, and almost all of this is because of farmers deciding to leave dairying. Without the minimum assurance of 80 percent of parity, I am afraid we will see the numbers of dairy farmers who quit begin to rise again, thereby tightening the Nation's milk supply. Because of this tightening supply, market forces will press milk prices upward to encourage farmers to stay in milk production, and this will reflect the shortening supply of cheese and other dairy products.

In our judgment, it would be far more effective to eliminate some of the risk factor through a minimum price support requirement of 80 percent of parity for 2 more years to achieve the continued balance between milk supply and demand. Without this assurance, we run the risk of abrupt increases in milk prices due to declining production. Such a situation would be followed by increasing milk production until prices plummet, thereby encouraging farmers to quit in droves. This instability in the industry, which we have been going through for the last, in my judgment, 6 or 7 years, maybe 8, serves neither the producer nor the consumer. It seems much more rational to eliminate some of the risk factor that a law guaranteeing a minimum of 80 percent of parity through September 1981 would provide.

Thank you very much, Senator, for the opportunity to present our testimony.

Senator LEAHY. Thank you, sir. Please go ahead Mr. Tucker.²

STATEMENT OF RAY MOSS TUCKER, FINCHVILLE, KY.

Mr. TUCKER. Mr. Chairman, I am Ray Moss Tucker, and I am from Finchville, Ky. The farm we live on is a rolling farm of about 600 acres, and it is a farm that is well suited for dairy; it could also be suited for a beef operation, but row cropping would be out of the question.

I might add that ours is a family type farm. My mother lives on the farm, myself, my son, and daughter; I also have a grandson, which makes four generations on the farm. We do farm it ourselves, just the three of us doing all the work, so it is strictly a family-type farm and we all make our livelihood from the farm.

Like all dairy farmers, our hours are long and the work is hard, but we enjoy it. However, the investment in the dairy industry

¹ See p. 54 for the prepared statement of Mr. Westwater.

² See p. 55 for the prepared statement of Mr. Tucker.

today is so high that the assurance of 80 percent of parity is extremely important to us. We are looking to Congress to establish 80 percent of parity to provide the stability in the marketplace over a longer period of time. I know many producers have demanded 90 percent, but we must be realistic. While I, too, would like to have the maximum, I recognize that it is not realistic. But I do feel that 80 percent of parity is a reasonable request.

Let me add at this time that since the House committee held hearings this spring on this same subject, we would like to take this opportunity to thank the Secretary for again setting it at 80 percent October 1.

I am a member of Dairymen, Inc. Our membership area is divided into divisions, as Mr. Westwater pointed out. I am a member of the Kyana division, the division that covers approximately a third of southern Indiana and most of the State of Kentucky. Currently, we have 1,806 members in this division, or a decrease of 59 members in the last 12 months. This is just an indication of the trend that has been going on for some time. Just 4 years ago, the county road that I live on, which is 4 miles long, had 10 dairy farms on it, and today there are 3 left on that road. One of the reasons for this is because of the quality of labor that is available. Even at 80 percent of parity, we cannot compete with industry and get the best qualified help. With cattle costing on the average of \$1,400 or \$1,500 each, we simply cannot put that kind of labor with that type of investment.

In order to create efficiencies that are necessary to compete in today's economy, we must depend on large-scale farming, which includes large-scale equipment, and one must hire a well-qualified man to trust him with a \$30,000 tractor or silage chopper, or the other equipment that we must have.

One of the most successful young dairymen, Leon Creech, had a sale about 3 months ago and sold his entire milking herd of 106 cows. The reason he sold the herd was because he lost his two hired men and was not able to find satisfactory replacements at the salary range that he could afford. As a measure of his potential to succeed in the dairy industry, the herd that he sold had a herd production average of 17,000 pounds of milk per year, which puts him in the top 5 percent of the dairy farmers in the State of Kentucky.

In terms of equipment costs, I bought a round baler this spring. If I had bought it 1 year ago, I would have been able to purchase it for 30 percent less than what it cost me at this time.

Senator LEAHY. 30 percent in 1 year?

Mr. TUCKER. 30 percent, right. And since the hearings in the spring, too, on this same bill, we all realize that fuel prices have gone up 30 percent just in this short period of time, and we are not sure, as we all know, what they are going to do from here on.

We have a modern milking parlor; it was built approximately 5 years ago on our farm, and at that time, it cost me to complete it and get it ready to operate \$40,000, including the building. Today—last week, I got the figures of what, roughly, it would cost again; it would be \$70,000, so we are talking about an increase of 75 percent. We are currently milking 107 cows, and without this facility, we could not do it.

Hardly a month goes by that our veterinary bill does not run over \$500. Just to add to this, 7 years ago, our veterinary bill for the entire year was \$426. Yet, the most disturbing thing centers around the fact that present-day dairy cattle are very high-producing animals and we are pushing them to the maximum. As we put stress on cattle for production, we increase the potential of physical breakdown. A few years ago, we had many more drugs to treat our cattle to maintain their production. In recent years, Food and Drug has outlawed so many effective treatments that, even with the large veterinary bills, we are finding the cost of production increasing and we cull many more cows than ever before because these treatments are ineffective that we now have.

Right along this line, as dairy farmers go out of business, those remaining must continue to expand to stay in business, and the high cost of beef has forced up the price of replacement dairy cows to where it is nearly impossible to buy young replacements. Of course, we attempt to raise most of our replacements, and that price has doubled in the last few years.

Today, all of us are in the economical squeeze of inflation. Even with 80 percent of parity, I feel confident we are going to have a continued loss of dairy farmers in the United States. As the years go by, the investment in a dairy farm has increased drastically. Without some price security, we could lose enough producers to result in a shortage of milk.

If this happened, milk prices would have to increase sufficiently to attract investors back into the industry. Certainly, a price structure to maintain production would be far less costly to the consumer than the cost necessary to rebuild the industry. I think 80 percent of parity will maintain that.

Dairymen are aware of the increasing costs of Government resulting from inflation and do not want to add to this burden. But we do need your assurance in terms of income and, again, we feel 80 percent is realistic. Thank you.

Senator LEAHY. Thank you. The temperature and terrain may change drastically from Kentucky to Vermont, but the long hours, the hard work, and the costs of production give you a great deal in common.

Mr. TUCKER. That is true.

Senator LEAHY. Thank you. Mr. Westwater, thank you too.

We now have Bob Rumpza, assistant to the president of the Minnesota Farmers Union, accompanied by Doug Caruso, the general manager of the Farmers Union Milk Marketing Cooperative.

We appreciate you both being here, and you may begin whichever way you would like.

STATEMENT OF ROBERT RUMPZA, ASSISTANT TO THE PRESIDENT, MINNESOTA FARMERS UNION, ACCOMPANIED BY DOUGLAS J. CARUSO, GENERAL MANAGER, FARMERS UNION MILK MARKETING COOPERATIVE

Mr. RUMPZA. I will be speaking, and Mr. Caruso will be available for questioning, if there should be any.

Senator LEAHY. If we pull a heavyweight question, you could just turn to Mr. Caruso.

Mr. RUMPZA. We have got to go to the policy expert, Mr. Chairman.

Senator LEAHY. I do that with my staff all the time. I will come in and make a great-sounding speech, and then somebody will ask me a question about what I meant and I just turn to Ken Pierce here, or someone like that, and they have to dig me out of wherever I was.

Mr. CARUSO. I used to work up here for a member.

Senator LEAHY. Then I am not telling you anything you do not know.

Mr. RUMPZA. Mr. Chairman, I will be very brief. My name is Bob Rumpza; I am assistant to the president for the Minnesota Farmers Union. I was born and raised on a dairy farm in Minnesota, and my family is still in dairying.

I would like to submit the full statement that is before you for the record, and I will be brief in making a couple of points that have not been made. Many of the comments that we have made in regard to the dairy situation are contained in the full statement.¹

The points that I would like to make, in addition to the points which have been mentioned, is the fact that delegates to the annual convention of the National Farmers Union in Kansas City in March of this year adopted a policy statement calling for dairy price supports at 90 percent of parity.

We are here in support of S. 6 and S. 80, but our members do believe that a 90-percent parity price level would go a long way toward stabilizing the dairy industry and keeping a viable dairy industry in this country.

Another thing that has not been mentioned is that in talking about what will be discussed in the 1981 farm bill, we would also encourage that Senator Nelson's bill, S. 910, establishing a permanent 80 percent of parity floor, be discussed at that time, and hopefully brought into law in amendments to the Agriculture Act of 1949.

I will just summarize by saying that the near-perfect balance between supply and demand in the past 3 years has steadily reduced Government outlays for dairy price support program purchases, and reduced Government-owned stocks to the lowest level since the early seventies. We think that is good for the Government, farmers, and consumers.

Guaranteeing a minimum support level of 80 percent of parity is essential to meet the sound criteria in the law, and serves the public interest in a stable supply of a basic food at stable and reasonable prices.

Therefore, we urge the subcommittee to favorably report this legislation, extending the 80 percent of parity minimum support level for milk until September 30, 1981. Thank you very much, Mr. Chairman.

Senator LEAHY. Thank you. You have mentioned a permanent base, and I think you realize that as a political reality, that would have to be discussed as part of an overall farm bill.

Mr. RUMPZA. Certainly, Mr. Chairman.

Senator LEAHY. I think this has been discussed in the past and has failed before with the membership. If we go to the 80 percent

¹ See p. 56 for the prepared statement of Cy Carpenter, president, Minnesota Farmers Union.

of parity legislation, as far as your group is concerned you do not care which one of the bills is in. If it appears that the general consensus of the people in the House and Senate is that there should be 80 percent of parity for 2 years, you could care less what mechanism it is in, just as long as it came in.

Mr. RUMPZA. Certainly, we could live with that, Senator. As has been mentioned, the dairy cycle is far more than 2 years.

Senator LEAHY. Of course.

Mr. RUMPZA. Planning is on a long-range basis, and we need as long a time as possible to establish that planning in the industry.

Senator LEAHY. I have been supportive of a longer term basis. I also have been able to count votes up here, too.

Mr. RUMPZA. Yes, sir.

Senator LEAHY. What about the trigger mechanism that was discussed earlier?

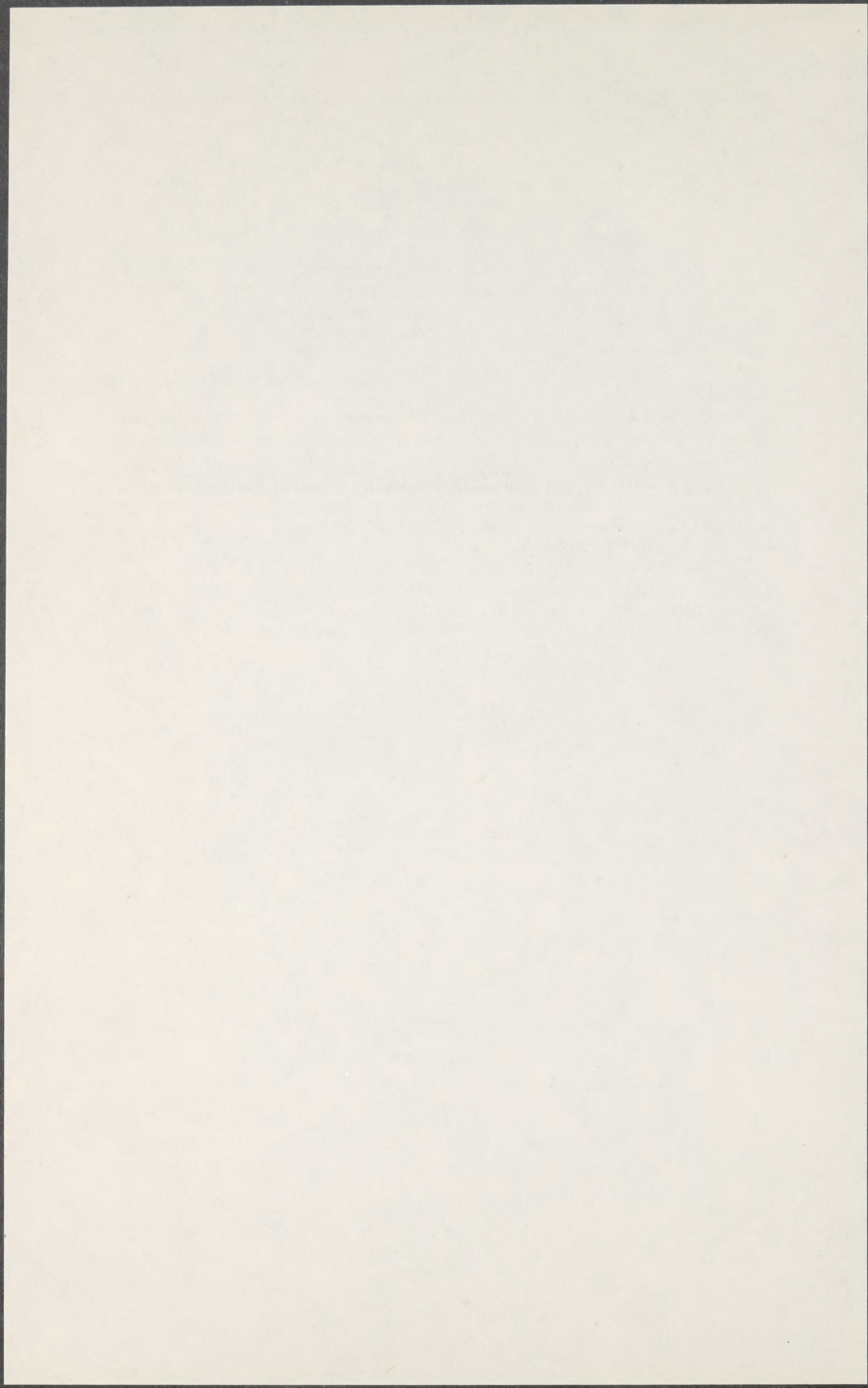
Mr. RUMPZA. Well, we would like to go on record as opposing that. We have talked a long time about countercyclical beef imports, for example. I think this would be a counter, countercyclical sort of mechanism, where if you do not need help, you get it, and if you need help, you do not.

Senator LEAHY. Very good. Mr. Rumpza and Mr. Caruso, we appreciate your being here.

Mr. RUMPZA. Thank you, Mr. Chairman.

Senator LEAHY. With that, we will adjourn.

[Whereupon, at 11:25 a.m., the subcommittee adjourned, subject to the call of the Chair.]



APPENDIX

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Mr. Chairman, among the first bills introduced in the 96th Congress was S. 6, my bill to extend the minimum 80 percent of parity price support provision contained in the Food and Agriculture Act of 1977. The extension would make the 80 percent minimum level effective through September 30, 1981.

There are sound reasons for taking this course and I appreciate your cooperation, Mr. Chairman, in convening this hearing to consider this legislation.

The provisions included in the 1977 legislation have operated to the benefit of consumers, producers and taxpayers. Milk Production has been at a level adequate to meet the demands of the market without resulting in burdensome surpluses being accumulated by the Commodity Credit Corporation. In fact, CCC purchases have declined during 1978 and 1979 and the inventory of dairy products held by the government as a result of price support operations is lower today than it was two years ago.

Extension of the 80 percent of parity minimum price support provision will provide farmers a needed degree of price assurance for the next two year period.

Secretary Bergland recognized the cost price squeeze facing the Nation's dairy farmers and based on solid economic facts announced that manufactured milk would be supported at 80 percent of the October 1 parity price. Not all Secretaries of Agriculture have been as sensitive to the problems of the Nation's dairy farmers as has been Secretary Bergland.

Inflation has its impact on the dairy farmer as with every other segment of our economy. If the farmer is to continue to make the investment in new technology, if he is to continue to improve his operations so as to provide the product needed, he needs this degree of price assurance.

We are prone to consider this as farm legislation. A close look at the basic law authorizing the price support program however, will reveal that its prime direction is toward securing the production of an adequate supply of milk for this country.

This has been done and it has been done in a manner that has permitted the consumer to purchase the needed milk and milk products for ever-decreasing prices in real terms. For example, in 1978 the average U.S. factory worker labored 8.6 minutes to earn enough to buy a half gallon of milk. In 1965, it took 10.9 minutes work to accomplish the same task.

While inflation has affected us all, the argument cannot be made that the price of milk and dairy products has been a major contributor. Quite the opposite is true. In August of this year, the Consumer Price Index stood at 221.1. The All Food element of the Index was 236.3, but the All Dairy Products Index was 208.6 (1967=100). Thus, dairy product prices have actually risen less than other food costs or the overall index of consumer items.

It was in recognition of the balancing of the various factors involved in this legislation that led the Congressional Budget Office to conclude that an extension of the 80 percent of price support minimum" . . . offers price stability and will not cause any major changes in current conditions for dairy farmers, consumers, or taxpayers."

This is important legislation. It is important to the dairy farmers in my home state of Vermont and it is important to American consumers throughout the country. I urge this committee to expeditiously act on this measure so that both the dairy farmers and the consumers of this country can have the security of knowing that this issue is settled for the next two years.

STATEMENT OF HON. GAYLORD NELSON, A U.S. SENATOR FROM WISCONSIN

Mr. Chairman, I appreciate the opportunity to discuss legislation—S. 80—I introduced with you and Senators Proxmire, McGovern, Riegle, and Moynihan on the

first day of the 96th Congress to extend the 80 percent minimum price support level for dairy products for two more years and continue the semiannual adjustments for inflation through September 30, 1981.

As you know, the Food and Agriculture Act of 1977 raised the minimum dairy price support level from 75 percent to 80 percent for a two-year period which ended on September 30, 1979. All other sections of that Act were authorized for four years, but the dairy price support provisions were only authorized for two years.

During consideration of the 1977 Act, many of us who are familiar with the nature of family dairy farms urged that the 80 percent minimum be set for the full, four year duration of the Act. However, Congress determined that the 80 percent minimum should be tried for two years and evaluated on that experience.

The time has now come to decide whether to extend the 80 percent minimum for the last two years of the Act. In my judgment, there is no question that it should be extended. This judgment is based on overwhelming evidence that the 80 percent price support floor has worked well for both the dairy farmer and the consumer.

The dairy price support program in effect during the past two years has created an economic climate to permit most dairy farmers to stay in business. And as a result of this, an adequate and stable supply of milk has been available at reasonable prices for consumers.

By any measure, dairy products remain a bargain for the American consumer. Several facts substantiate this assertion:

Between 1967 and 1978 the Consumer Price Index indicates that dairy products increased by 86 percent, while all food prices increased 111 percent during this period of time.

A dairy farmer receives about 95 cents for each gallon of milk he produces. By contrast, a gallon jug of spring water costs anywhere from 69 cents to a dollar at the grocery store.

It took the average worker engaged in manufacturing 16 minutes of work to earn enough to buy a half gallon of milk in 1950. Today it takes less than 9 minutes.

Mr. Chairman, the 80 percent minimum dairy price support program makes good economic sense. In recognition of this fact, two weeks ago Secretary of Agriculture Bob Bergland established the dairy price support level at 80 percent of parity for the 1979-1980 marketing year. While the support level could have been reduced to 75 percent on October 1, 1979, the Secretary of Agriculture determined that 80 percent of parity was a more appropriate level.

In setting the support level at 80 percent, Secretary of Agriculture Bergland assured the nation's dairy farmers that they would receive no less than 80 percent of the price that farmers got for their milk during a baseline period some 75 years ago, when, it has been agreed, farmers received a reasonable income for their milk.

If the normal market price for milk falls below 80 percent of parity, the federal government will step in and begin to buy milk products like butter, cheese, and nonfat dry milk, at a price that pays farmers 80 percent of parity for their products.

That, in essence, is how the federal milk price support system works.

The Secretary's action maintaining an 80 percent support price level means that the government has placed a floor of \$11.22 per hundred weight on the price a farmer receives for milk. At this time, the Minnesota-Wisconsin manufacturing milk price in September was \$11.32. Therefore, at the present time the retention of the 80 percent figure will cost the federal treasury almost nothing.

The question of what the appropriate level of dairy price supports ought to be as studied earlier this year by the Congressional Budget Office (CBO). On April 11, 1979, Dr. Alice Rivlin, director of the CBO testified before the Dairy and Poultry Subcommittee of the House Agriculture Committee. In her statement, Dr. Rivlin testified as to the CBO's analysis of the effects of milk price supports over the next 5 years at four alternative support levels—75, 80, 85, and 90 percent of parity.

The major conclusion of this analysis is that adequate supplies of milk will be attained with the support price at the current 80 percent of parity. The CBO found that there are somewhat greater risks of price instability and interruptions in supply which result from 75 percent of parity. Dr. Rivlin had the following comment on maintaining 80 percent of parity:

If the minimum support price is continued at 80 percent of parity for the next five years, annual receipts from the sale of milk would average about \$18.0 billion and annual retail spending for dairy products would average \$37.3 billion. In real terms, the incomes of dairy farmers and the retail prices of dairy products would continue at current levels.

Annual CCC (Commodity Credit Corporation) purchases would average 3.6 billion pounds or about 3 percent of milk production, a level historically associated with relatively high price stability. Annual Federal budget outlays would average ap-

proximately \$600 million. In short, 80 percent of parity would provide price stability and, as compared with the recent situation, *would not cause any major changes in dairy farmers' incomes, consumer prices, or Federal budget outlays.* (Emphasis added)

Mr. Chairman, the dairy price support program has been an integral part of the U.S. food policy for 30 years—since 1949. The 80 percent dairy price support minimum is absolutely essential to provide American consumers an adequate supply of milk and dairy products at a fair price and to guarantee the Nation's dairy farmers an income that will keep farmers and their families in business. This basic premise is supported by the analysis provided by Dr. Rivlin's agency.

Those who would oppose maintaining an 80 percent parity level this year and in future years demonstrate that they just do not understand the nature of family dairy farms. Those family dairy farmers who have survived—and many have not—have done so because the present price support program works, but also because of their dedication to their profession and to the willingness of the entire farm family to take an active role in the operation of the dairy farms.

The family works together in good times and bad, on holidays and on every day of the week to milk the herd twice a day. The family sacrifices the ordinary return it should receive for its manual labor, not to mention the return it could otherwise expect in the marketplace for the money it has invested in its venture. Other than our Nation's farmers, I know of no other economic groups in America frequently works for less than the minimum wage.

Mr. Chairman, an examination of the situation Wisconsin confronting Wisconsin dairy farmers in instructive in the consideration of the pending legislation.

About 45,300 dairy farmers reside in Wisconsin, making it the largest producer of milk in the United States—"America's Dairyland," as our license plates proclaim. Collectively these farms produce over one seventh of the nation's total milk supply, more than farms of any other state. The availability of so much milk in Wisconsin makes it a leader in another field—the production of cheese. About 40 percent of the nation's total supply originates in Wisconsin.

Most dairy farm families in Wisconsin milk between 30 and 49 cows. The average herd on Wisconsin farms now numbers 36 cows.

On the average workday, the Wisconsin dairy farmer works 10 to 12 hours, and his wife works 4 to 5 hours in farm-related activities. During the haying and seeding seasons they work an additional four to six hours.

Sunday is not a day of rest on any dairy farm. It still means several hours of work for the family. Day in, day out, year in, year out, the cows must be milked and fed and milking equipment cleaned. Chores never stop. If the dairy farmer hopes to take any days off during the year, he must arrange to have his cows milked by relatives, friends, or children staying home.

People who do not know that the life of a dairy farm family is like often times imagine it as idyllic.

In reality, the farmer spends his life living with uncertainty. He cannot control the production of his cows. He cannot throw a switch and turn them off like a machine when the market becomes glutted and prices plummet. He cannot predict or control the effects of weather.

In view of the uncertainties associated with dairy farming, the need for constant attention to duty, and the potential for disaster, what financial return can the dairy farmer and his family expect for their labors?

According to an accounting of the most efficient, average-size (30 to 49 cows) dairy farms in Wisconsin, total disposable income for the entire farm family's labors in 1978 was \$13,532. This figure, let me emphasize, does not represent the average income of dairy farm families in Wisconsin during 1978. Rather it reflects the average disposable income of Wisconsin's most successful dairy farmers.

To get a better picture of the "average" dairy farmer in Wisconsin, Truman Graf—a noted agricultural economist at the University of Wisconsin in Madison—thoroughly studied the statistics collected by Wisconsin's most efficient dairy farmers and concluded that farm families in the State of Wisconsin earned around \$10,000 for all of their work in 1978. Some earned less!

Translated into other terms, the compensation received by Wisconsin dairy farmers and their families for their work on an hourly basis was less than the minimum wage, ranging between \$1.70 an hour to \$2.60 an hour computed on a 100 hour per week, 52 weeks per year basis.

Total farm family income from dairying, therefore, was extremely low in my judgment. After all, dairy farmers have an investment in land, buildings, livestock, and equipment that averages close to \$200,000 and often exceeds \$300,000.

Mr. Chairman, as you well know, there are few people in America who would work 365 days a year, Sundays and holidays, for \$1.70 to \$2.60 an hour.

That is why it is incredible to find many consumers, consumer groups and the news media opposing a dairy price support level of 80 percent of parity. This parity level permits the dairy farmers of this country to stay in business by being assured of a minimum income for all their labors and investment. An income, as I pointed out, that does not even equal the minimum wage. Nothing can be gained at all by further squeezing the dairy farmers.

Not infrequently those of us who support at least an 80 percent parity level are asked why the American public should continue to subsidize the dairy farmer. My response puzzles them. I point out that they are asking the wrong question. The right question is: How much longer can the dairy farmer be expected to continue to subsidize the consumer? When one efficiently produces a good product for a low return for one's labor and frequently little or no return for investment or management, it is the producer who is paying the subsidy, not the consumer.

So the question ought to be: Why should the dairy farmer be required to continue subsidizing the consumer?

The answer thousands of dairy farmers have given to this question is clear. They have had to quit dairy farming. In Wisconsin and in every other dairy farming area in this country, far more farmers have quit than have stayed in business during the past twenty-five years.

And so it is quite clear why Congress and the Administration have determined that 80 percent of parity is the appropriate level of support for dairy products. It helps prevent more farmers from going out of business and therefore assures a constant supply of a vital food at a fair price.

If the dairy farmer has to work every day of the year including Christmas, Thanksgiving and other holidays, why does he continue? He does it because that's what he does best; he loves the land as all farmers do; he cherishes his independence; he likes to see things grow; he knows his work is useful and necessary.

In conclusion, Mr. Chairman, let me say that the current 80 percent support price level for dairy products is an appropriate minimum level of support. It has stabilized and moderately improved farm family incomes during the past two years. It has helped prevent dairy farmers from turning to other agricultural pursuits or from selling out and moving to urban areas where 40-hour-a-week jobs, cost-of-living raises and pensions are the norm, not the exception.

Maintaining a vital and aggressive dairy industry composed of thousands of small family farmers certainly is in the national interest. Any other policy that puts small dairy farmers out of business and moves in the direction of conglomerate corporate agriculture ultimately will not serve the interests of the consumer or the country. That is what is at stake here.

STATEMENT OF HOWARD W. HJORT, DIRECTOR OF ECONOMICS, POLICY ANALYSIS
AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE

Thank you for inviting me to discuss with you the Administration's position on S. 6 and S. 80, measures which would extend for two years the requirement that the price of milk be supported at not less than 80 percent of parity. S. 80 would also specifically extend the requirement for semi-annual adjustment for another six months—from March 31, 1981 to September 31, 1981. As we reported to Chairman Talmadge in our letters of June 12 and September 24, the Administration supports the enactment of a bill with these provisions, but recommends that it be amended to give us more flexibility to manage the dairy price support program.

First, I want to say that I believe that our dairy program is one that works, and works well. There have been times when supports were inadequate and farmers went through a squeeze; there also have been times when milk production was too high and surpluses were large and relatively costly. But, by and large, the program does what it is supposed to do: it prevents wide fluctuations in milk prices by putting a floor on the down side and it moderates sharp price upswings by moving government-owned stocks onto the market as prices move up.

This latter point is not generally appreciated, but let me illustrate how it works. In 1978, the Commodity Credit Corporation (CCC) sold 22 million pounds of butter and 5 million pounds of cheese back to the industry. An additional 3 million pounds of butter have been sold back in 1979. These sales have had an important impact on the market. Without them, the strong demand we were then facing, would have moved prices up farther and more rapidly than actually occurred.

Frankly, our current sales policy that permits us to sell products back at 105 percent of support levels permits us to be even more effective in dampening sharp price rises. I know this policy is somewhat unpopular with the dairy industry now, but in this time of inflation, I believe it is necessary and important.

Our dairy policy works because it serves both producers and consumers. It will continue to work as long as it continues to serve both groups. Should it fail to serve either group well, it will fail.

I mention that double responsibility because it means the Secretary can never manage such a program to the complete satisfaction of either group. Consumers tend to want lower prices than are consistent with an adequate supply in the long-run. Producers might want higher supports than are justified to provide an adequate supply. Secretaries of Agriculture must work to strike a balance—and that is as difficult to do as it is unpopular.

I do not want to over-emphasize that point. However, it is my observation that consumers today understand more clearly than they did even a few years ago, the necessity of a fair price for producers and the consequences of not providing such a fair price. At the same time, I know of no dairyman who wants to see price supports so high as to cause surplus government stocks, high government costs or a consumer backlash. I believe we have made some progress in helping people on both sides of these issues understand the basics of supply and demand and of program operation.

The Administration had a choice to make on the dairy policy issue—and frankly, it was a hard choice. We had to choose a position that would give producers the price protection they need to produce adequate supplies of milk, but at the same time give the Secretary the flexibility needed to manage the program. We had to choose between an inflexible commitment to support milk prices at a minimum of 80 percent of parity or a commitment to maintain our 80-percent level support but add more flexibility to manage the program. We chose the latter course for several reasons.

Looking forward for the next several months, based on current information, 80 percent of parity still looks like a reasonable level of supports, and 75 percent looks too low. For that reason, we used our permanent authority to establish supports at 80 percent of parity this last October 1; support levels were also at 80 percent of parity at the beginning of the 1978/79 marketing year. They were increased 9 percent last April 1; the most recent October 1 increase was 7 percent above the April 1 level.

September milk prices averaged 13 percent more than a year ago. We don't know exactly how much dairy production costs have increased this year, but feed costs make up about half of dairy production costs and the price of 16-percent protein dairy feed in September was 17 percent above a year ago.

Economic incentives for milk production have been strong for the past two years. The value of 100 pounds of milk now exceeds the value of 100 pounds of dairy feed concentrates by about \$5.00. That margin increased by more than 25 percent during 1978, and has held fairly steady in 1979. But the production response we expect from strong economic incentives has been slow in coming.

Production for the first 11 months of this marketing year was slightly above a year earlier—about one-half of one percent—although production in August was substantially above a year earlier—1.8 percent.

While milk production response has been less than expected, consumption of milk and dairy products has been strong. As a result, prices have been above supports and surplus removals by CCC have been down sharply. For the 1978/79 marketing year just ended, net removals—purchases minus sales back to the industry—were equivalent to 1.1 billion pounds of milk in the form of butter and cheese—well below the approximately 2.7 to 3.0 billion pounds (milk equivalent) we use annually for our feeding programs. A year ago, net removals were equivalent to 3.2 billion pounds of milk of which about 2.7 billion pounds went to feeding programs.

Non-fat dry milk removals are down, too. They totaled 202 million pounds this year, compared with 338 million pounds a year earlier. As a result, CCC's inventories have been substantially reduced. On September 30, 1979, CCC had uncommitted inventories of 147 million pounds of butter and 446 million pounds of non-fat dry milk, and no cheese. These compared with peak inventories last year of 250 million pounds of butter, 650 million pounds of non-fat dry milk and 55 million pounds of cheese.

If we could know that these conditions would continue for the next two years, we could say with confidence that supports at a minimum of 80 percent of parity would be appropriate for that whole period. But, we can't for three reasons.

First, our dairy herds have been heavily culled because high hamburger and cull cow prices made it profitable to do so. This reduced production temporarily, but it will tend to increase potential production later on as heifers with higher production potential come into the herd. Increased production could result in 1980, but is more likely by the spring and summer of 1981.

Second, USDA studies show that price supports at 80 percent of parity will continue to provide very strong economic incentives to producers. Both market prices and price supports could exceed cost of production by 1981.

Finally, any downturn in the economy could reduce demand for dairy products and increase the chances of over-production. We are now beginning to see some warning signs that a substantial production increase is occurring. With the start of the new marketing year, market prices of most dairy products are at or near CCC's purchase prices. CCC is continuing to remove non-fat dry milk from the market. We started to buy butter this week and expect to be buying barrel cheese within the next few days, although block cheddar cheese prices have remained above support levels.

Current commercial stocks of dairy products appear to be ample, in contrast to this time last year when the industry's stocks were relatively low. Recently cheese production has been up significantly over last year while butter and non-fat dry milk production have been about the same.

As a result of the possibility of over-production and the uncertainty that surrounds our projections, the Administration believes that we must have greater flexibility to manage our dairy programs over the next two years than we would have under a straight extension of current authority as proposed in these bills. We are willing to accept an extension of current 80-percent-of-parity support minimums for an additional two years but recommend that the law be modified so that the Secretary has authority not to make or to modify a scheduled increase in supports if the program begins to get in trouble.

The Secretary described his concept of such a "trigger" in his September 24 letter to Chairman Talmadge. In that letter, he expressed our concern that excess production would threaten the credibility of the program and result in excessive costs to taxpayers. He described the need for a "trigger" or "circuit breaker" if that happens. I am including a copy of that letter for the record.

I want to add some brief comments about the proposed amendment. First, it is permissive. It does not automatically direct the Secretary to change any current or future price support level. If the mechanism triggers, the Secretary must make a determination. The amendment would permit him to decide whether or not to go ahead with changes in the support level required by the normal annual adjustment procedures to 80 percent of parity and the semiannual adjustment procedures.

Second, the amendment does not give the Secretary authority to lower support levels during the marketing year. If the amendment were in effect and net removals exceeded the trigger level, he would not have any more authority to lower price supports than he does now. He would, under this amendment, have more flexibility about an upcoming change in the level of price supports.

Finally, I want to repeat that the "trigger" mechanism we propose is new and untried. We would be willing to discuss alternatives that might work better. However, we believe that this mechanism would add important flexibility and having it would help both producers and consumers. It would give producers a clear, but moderate, signal that there is a problem and that changes are necessary. It would prevent unnecessary expenditures by consumers and taxpayers and avoid undesirable criticism of the dairy program.

Mr. Chairman, that concludes my prepared statement. I would be pleased to respond to your questions.

STATEMENT OF ROBERT H. RUMLER, EXECUTIVE CHAIRMAN, HOLSTEIN-FRIESIAN ASSOCIATION OF AMERICA, BRATTLEBORO, VT.

In the strongest possible terms, I would urge this Committee and the Senate to adopt the principles and basic proposal set forth in Senate Bill No. 6 sponsored by Senator Leahy and Senate Bill No. 80 sponsored by Senator Nelson. This would be to amend Section 201 of the Agricultural Act of 1949, as amended, to extend until September 30, 1981, the requirement that the price of milk be supported at not less than 80 percentum of the parity price therefor.

As an expediency, I would urge this Committee to adopt as its own the exact working of H.R. 4167 (copy attached) as a substitute for S. 6 and S. 80. Assuming favorable consideration by your Committee and the full Committee on Agriculture, Nutrition and Forestry as well as the Senate, no Conference Committee action would be necessary.

This proposal properly implies the urgency we feel is appropriate for this legislation and action which is needed by the dairy industry. For reasons set forth in the attached copy of the "Statements of Position" of Holstein-Friesian Association of America under the heading "Multilateral Trade Negotiations", it would have been

proper that action on this legislation precede action on the MTN. The fact that this recommendation did not prevail makes the arguments put forth in the "Statements" all the more significant.

I am Robert H. Rumler, Executive Chairman of Holstein-Friesian Association of America. In this capacity, I represent directly a membership of leading Holstein dairy farmers and dairy cattle breeders of nearly 40,000. Also, I speak in the interest of all other Holstein dairymen who, together with our direct membership, produce 90 percent of the nation's milk supply. Further, as Chairman of the Public Affairs Committee of The Purebred Dairy Cattle Association, I am privileged to speak on behalf of the membership of The Ayrshire Breeders Association, The Brown Swiss Cattle Breeders' Association, The American Guernsey Cattle Club, The American Jersey Cattle Club and The American Milking Shorthorn Society which exceeds 10,000 active breeders of purebred dairy cattle.

A STABLE INDUSTRY

At the present time, the dairy industry is in a reasonably stable position. Milk prices generally are above support levels, but only marginally so * * * not excessive or unreasonable when viewed from the point of view of the consumer in either direct or real values while being below other foods in terms of real price. Also, milk prices since the enactment in 1977 of the now expired amendment to the Agricultural Act of 1949 setting the price support level at a minimum of 80 percent of parity have not increased at a rate equal to other foods or in terms of "real cost" to the consumer. There has existed for nearly two years a highly acceptable balance between supply and demand, serving the mutual interests of the consumer and the dairy farmer.

The purchase of dairy products by the Commodity Credit Corporation for the last eleven months through August 1979 were substantially below year earlier levels. Butter was down nearly 60 percent to approximately 60 million pounds. Cheese was down 73 percent to slightly more than 12 million pounds and nonfat dry milk was 42 percent lower to less than 193 million pounds. September 1979 purchases were limited to small quantities of nonfat dry milk.

This situation must be maintained to serve the mutual interests of both the consumer and the dairy farmer. Enactment of "H.R. 4167" or the provisions of "S. 6" or "S. 80" provide one of the mechanisms to assure the continuation of a program which is working well and serving the total national interest.

THE ROLE OF MILK PRICE SUPPORTS

Milk price supports may be used for either of two purposes:

1. To provide income enhancement for dairy farmers by setting the support price substantially above market-clearing levels, or

2. To provide, as the present 80 percent level is now doing, a measure of industry stability and consumer security, for the present and the future, by setting price floors at realistically minimum levels.

The dairy farmers and producers for whom I am privileged to speak strongly support the second option * * * industry stability provided by a support price at a realistic minimum level. The current situation for both consumer and dairymen strongly supports the argument for a continuation of the 80 percent level for at least another two years.

AN INDUSTRY PROFILE

Dairy farming is a unique agricultural enterprise, unlike many others in two very important respects. It is more capital intensive, per worker, than any other enterprise, either agricultural or industrial, except steel production. And, cyclically, it is long term.

These two characteristics mandate an assurance of industry stability if appropriate national nutritional goals and consumer needs are to be met, economically. Dairy products provide in excess of 11 percent of our food energy and 22 percent of our protein plus many other valuable and needed nutrients.

In urging the enactment of this legislation, dairy farmers are not asking for a guaranteed profit. A support level of 80 percent of parity will not assure a profit with today's operating costs. What they are asking, hopefully in concert with knowledgeable consumers, is some assurance of industry stability for a product which must be produced domestically. True we can import hard dairy products * * * not a realistic idea from any point of view, but possible for the short haul. But fresh fluid milk which makes up more than 50 percent of the utilization in markets under the Federal Order Market Program must be domestically produced. In turn, this production must be supported as well as balanced by domestical-

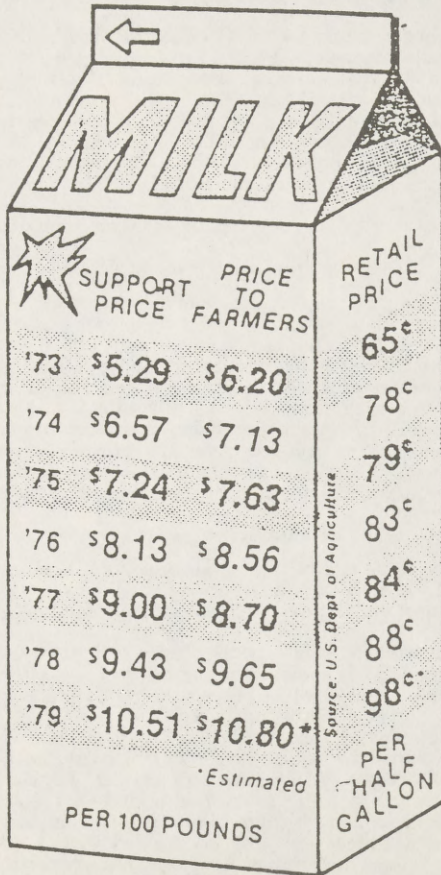
ly produced hard dairy products if consumer prices for dairy products are to be held to reasonable levels for the long haul. The United States is unique in the type and manner in which it uses dairy products.

Put in its simplest terms, this legislation is a very inexpensive insurance policy for consumers and dairy farmers against unpredictable economic and certain other changes that can produce disastrous effects on milk supplies and prices for either group. The attached graphic of support prices, producer prices and retail prices superimposed on the outline of a milk carton tend to support this statement. An imbalance occurred in 1977 when the support was set at 83 percent of parity.

WHY THE LEGISLATION NOW!

The long cycle nature of the dairy industry mandates this reassurance of industry stability for consumer and farmer alike on a continuing basis. It would be regrettable, indeed, if failure to take appropriate action now resulted in a major swing in milk production, either up or down. Why? Because herd depletion caused by uncertainty is now quick, easy and profitable. But according to the USDA, "after the decision is made to expand output, it takes about 36 months for significantly more milk to reach the market."

Legislation mandating an 80 percent minimum support level expired at a crucial time * * * October 1, 1979. Beef prices continue at a high level making dairy herd dispersements attractive. Secretary Bergland put it this way recently, "one of the problems facing dairy farmers today is whether to produce (milk) or sell (beef)."



Conceivably this is the reason the Secretary set the support level for the six-month period starting October 1, 1979 at the 80 percent minimum level, notwithstanding the fact that he could have gone as low as 75 percent of parity.

We applaud the action of the Secretary, but industry stability cannot be achieved through minimum price support levels determined at six-month intervals when the possibility exists for levels below 80 percent of parity. We must continue with a program and a level of support that has proven itself to effectively produce a realistic balance for consumer and producer alike. To do less is to gamble with one of the nation's most important and valuable sources of highly nutritious and relatively inexpensive sources of food.

Thank you, Mr. Chairman.

[H.R. 4167, 96th Cong., 1st sess.]

A BILL To amend section 201 of the Agricultural Act of 1949, as amended, to extend until September 30, 1981, the requirement that the price of milk be supported at not less than 80 per centum of the parity price therefor.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the second sentence of subsection (c) of section 201 of the Agricultural Act of 1949, as amended (7 U.S.C. 1446(c)), is amended by striking out "March 31, 1979" and inserting in lieu thereof "September 30, 1981".

(b) The first sentence of subsection (d) of such section (7 U.S.C. 1446(d)) is amended by striking out "March 31, 1981" and inserting in lieu thereof "September 30, 1981".

STATEMENTS OF POSITION—HOLSTEIN-FRIESIAN ASSOCIATION OF AMERICA

POLICY ON NATIONAL ISSUES

(By Robert H. Rumler, Executive Chairman, at the 94th Annual Meeting, June 26-27, 1979)

National agricultural policy

That a long-range agricultural policy be established by the Congress and the Administration on a bipartisan basis having as its goal the maintenance of an environment in which American Agriculture can produce at maximum capacity with reasonable assurances against economic disaster should production greatly exceed domestic and world demand for basic commodities in any given year and that this goal serve as the underlying principle for both legislation and administrative directives.

Developing agricultural policy

That the President and other branches of the Administration be urged to rely more heavily in future policy-making matters affecting U.S. agriculture, both domestically and internationally, on the leadership and guidance available and willingly forthcoming from knowledgeable individuals, especially agricultural leaders from the private sector, the Secretary of Agriculture and Specialists within the USDA.

Nutrition and food production policy

That any Federal Food and Nutrition Policy have as its goal a realistic balance between well-established and documented nutritional needs of our people and the productive resources of our farms, keeping in mind the efficient and effective conversion of nutrient sources not edible by humans into edible, highly nutritious human food as well as the maintenance and conservation of our soil resources.

Legislation affecting agriculture

That in the development of legislation affecting American Agriculture, careful consideration be given to a comprehensive approach which would embrace a sound, national food policy and agricultural production program, having as its goals:

(a) To provide adequate supplies of pure, wholesome food for all Americans including a recognition of special needs, and

(b) Provide stable markets for farmers to receive reasonable returns on investments of capital, labor and management skills.

(c) A structuring of the approach to embrace terms, conditions and philosophy more commonly used and generally understood in an industrialized economy, particularly that of the USA.

Inflation

That inflation represents the single most significant domestic threat to the standard of living and the way of life in the U.S. and therefore that every effort be put forth by all responsible parties, agencies, administrative and legislative groups to bring under control those forces which are contributing to the situation so that the level of economic increase is within acceptable and livable limits on a continuing and long-time basis.

National energy policy

That every effort be made to enact promptly a National Energy Policy which is realistically attainable and which will achieve great self-sufficiency in the U.S. Further, that such a policy recognize the need of priority consideration for agricultural production, processing and distribution to ensure long-term economic growth for agriculture and the nation.

Transportation

That Federal domestic and international transportation policies, regulations and legislation involving agricultural commodities and products be revamped and that badly needed transportation capability for the timely, effective and economical movement of agricultural production to domestic and foreign markets be provided so as to eliminate this bottleneck in the agricultural marketing system.

Consumer understanding and protection

That favorable consideration be given to all efforts directed toward a better understanding between individual consumers and consumer groups and farmers and farm groups with special emphasis being given to joint efforts and conferences between farm and consumer groups on major issues in which both have a vested interest.

Further, that each administrative department of the Federal Government, in giving consideration to the needs, interests and well-being of our citizens (consumers), exercise good judgment, discretion and a sense of balance reflecting realism in its directives, rules, regulations and procedures relating to each phase of the process from producer to consumer. As an example, with respect to Congressional action along with similar legislation, this would translate into the repeal of the DELANEY amendment to the Food, Drug and Cosmetic Act, replacing it with regulations based on more scientific data by government agencies dealing with food additives and chemicals.

Federal administrative organization

That the President be commended for espousing greater effectiveness and efficiency in government at the Federal level. As a part of any such effort, however, that he attempt to relocate and/or retain within the U.S. Department of Agriculture all matters related to human nutrition, food and food regulations agriculture and agricultural policy, including international agricultural assistance programs and policies.

International agricultural markets

That both the Congress and the USDA be commended for present efforts and be urged to expand upon those efforts to develop further while continuing to sustain international markets for U.S. agricultural production as an effective means toward a favorable balance of payment for the nation's economic well-being, as a means of serving the total national interest by providing American consumers with an abundance of food at realistic prices and continuing as a stimulus to American Agriculture. Further, that funding of these efforts carried forth in cooperation with the private sector be maintained at a high level and awarded high priority in budgeting and appropriation considerations by both the Congress and the USDA.

Agricultural market development—international

That full support be given to the efforts of the Foreign Agricultural Service-USDA in its cooperative foreign market development programs through favorable congressional support of this important and necessary joint effort of government and the private sector which is an unequalled model of such joint efforts. And, further, in this respect, that the Association express its appreciation to the Administrator and staff of the Foreign Agricultural Service for the excellent cooperation enjoyed in this highly successful effort by the Association.

Multilateral trade negotiations (agreements)

That the Multilateral Trade Negotiations and the accompanying domestic implementing legislation impose upon the dairy industry a greater burden, with no

tangible benefits in international trade or the international marketplace, than any other agricultural commodity involved in the Trade Agreement. In fact, it is required to yield additional access to the domestic market without gaining access to any realistic export market on a free market basis. Further, that the dairy industry, through provisions in the Agreement applicable to all industrial and agricultural items, is required to assume the burden of proof of violations by foreign trading partners under the Agreement . . . a position strongly opposed by dairy industry leadership.

Notwithstanding the obvious disadvantaged position of the dairy industry under the provisions of the Multilateral Trade Agreement, it is supported as is the proposed implementing legislation with the following understandings:

1. That it will bring a greater sense of order to international trade in total and therefore, on balance, will serve the total national interest of our country.

2. That the dairy industry cannot stand alone in a national community of agricultural commodities, but that it can expect, as a result of this positive position, an understanding attitude and constructive action toward dairy industry related problems and industry well-being on the part of the Administration as well as the Congress on a continuing basis.

3. That the respective Administrative Departments and divisions will rigidly enforce the provisions of the Agreement and exercise definitive and prompt action against U.S. trading partners when justified and as prescribed under the implementing legislation. Further, that such actions will be judged on their true merit alone and not be influenced by political or philosophical considerations.

Agricultural technology—private sector

That U.S. Agricultural Technology, particularly applied technology, is a commercially marketable commodity in international trade and should be considered as such in all negotiations, international planning, bilateral and multilateral agreements and programs of a similar nature. In each such instance, consultation with and concurrence by the Department of Agriculture as well as the related area of the private sector should be a requirement, albeit that agreements on occasion may be designed and executed primarily for political impact by the U.S. Department of State or other branches of the Federal Government.

Milk pricing (producer)

That the long-range program of pricing milk to the producer developed by the Association under the title "How Should Milk Be Priced?" be inaugurated by the USDA at the earliest possible time and that every effort be made to obtain the cooperation of other dairy interested organizations in its implementation starting with formula pricing of Class I milk using key national and regional economic movers as the basis.

Dairy marketing policy

That strong and continued support be given to the maintenance of the four cornerstones of our unofficial U.S. Milk Marketing Policy, i.e. the Federal Milk Market Order Program under the Agricultural Marketing Agreement Act of 1937, the Dairy Price Support Program under the Agricultural Act of 1949, provision for import controls under Section 22 of the Agricultural Adjustment Act and rigid enforcement of countervailing duties on imported products where applicable under anticipated new MTN agreements. Further that producer marketing cooperatives be fully supported in their efforts to retain existing legislative and administrative opportunities to operate effectively on behalf of dairymen while serving a useful and beneficial function for the total industry from producer to consumer.

Dairy price stabilization program

That the proper role of the Dairy Price Stabilization Program (Milk Price Support) is to provide a measure of industry stability and consumer security for adequate, high quality milk and dairy products for the present and the future by setting price floors at realistic minimum levels and not to provide income enhancement for dairy farmers by setting the support levels substantially above market-clearing levels. Further, that present pricing procedures justify the establishment of 80 percent to 90 percent of parity as being the most appropriate level to be extended through September 30, 1981 and then on a permanent basis unless or until improved pricing procedures to the producer are developed which would provide even greater industry stability and consumer supply security from domestic sources.

Federal legal minimum levels for milk

That the Federal Minimum Standards for butterfat and solids-not-fat in milk and fluid milk products be considered properly throughout the industry as legal mini-

minimum levels or requirements as was intended when adopted by the Food and Drug Administration.

That the industry refrain from any effort to establish optimum nutritional levels for these products as Federal or State legal minimum levels.

That the industry encourage processors to provide consumers optional nutritional levels in fluid milk products above legal minimums as may be dictated by market demand.

That this exercise in free choice above legal minimums be accompanied by appropriate pass through costs from producer and/or processor to consumer for the respective nutritional levels provided in each product.

APHIS

That appreciation be extended to the Animal and Plant Health Inspection Service for the assistance given dairymen in all phases of its work, especially that related to export marketing, while at the same time urging consideration be given to the real need for expanding facilities and improving on procedures for handling required animal health tests and the quarantine of animals for export with special emphasis being given to those diseases considered of major significance in international trade although of lesser domestic concern, i.e. leukosis, blue tongue, etc. Further, that APHIS and responsible Administrators within the USDA establish high priorities on the allocation of funds and personnel to well-documented major animal health problems before initiating new rules and procedures in animal health areas not now covered which do not present well-documented animal health problems of major consequence domestically or internationally.

Brucellosis control

That full support be given to and that the Association embrace as its own the program of Livestock Conservation Institute for the Control of Brucellosis with complete eradication as the ultimate goal.

That all members of the Association strongly support this program within their respective states and insist on compliance with "Uniform Methods and Rules" (established by APHIS for Brucellosis control and eradication) as minimum standards for each state.

Electronic identification

That the National Livestock Electronic Identification Board is considered as the Authority through which a national uniform system of electronic identification of livestock can be achieved. Further, that recognition and total support of this Board and its responsibilities in this newly developing technology by all livestock groups, organizations and interested persons can best serve the many uses envisioned for this system of animal identification.

Agricultural research

That priorities for agricultural research, specifically those established for the dairy industry, as developed at the Kansas City Working Conference on Research to meet U.S. and World Food Needs, be given preferential consideration in the allocation of personnel and funds at both the State and Federal level. The importance of the dairy industry has not been reflected in proportionate research allocations at either the State or Federal levels in recent years. Disproportionate consideration of research effort must be corrected, starting with the development of budgets within the USDA. Additionally, all allocations of funds and personnel must be more effectively administered through comprehensive planning based on facilities and capability to perform, rather than less significant criteria which seemed to have prevailed in the past. Every assistance is offered SEA/USDA to achieve these desirable goals and needs of the dairy industry.

Dairy production testing (NCDHIP)

That appreciation be extended to the Science and Education Administration (SEA/USDA) for concerned interest and service to the Dairy Industry, especially through the National Cooperative Dairy Herd Improvement Program (NCDHIP). This is considered an industry-wide program serving the interest of dairy cattle improvement nationally by the Government sponsors working cooperatively with several key organizations in the private sector. In this respect, the Dairy Breed Registry Organizations have played a significant role in both the policies and conduct of the program since its beginning. Similar continued participation and involvement of the Dairy Breed Registry Organizations along with the other groups is considered vital and necessary in the greatly expanded and increasingly sophisticated procedures involved in the genetic and management improvement of the nation's

dairy herd, which embrace NCDHIP as a part of their wider involvement in genetic evaluations.

Dairy education research promotion (UDIA)

That all Holstein dairymen give full support to the programs of the United Dairy Industry (UDIA) which coordinates the funds and programs of the American Dairy Association, National Dairy Council and Dairy Research, Inc. in nonbrand advertising and sales promotion nutrition research and education, market research, and product and process research and development. Such programs increase sales and per capita consumption of milk and milk products. They optimize return to dairymen on investment through UDIA. At the same time, they contribute materially to the health and well-being of our nation's consumers. There is an urgent need for all dairy farmers to give serious consideration to increased funding of UDIA programs in the national and industry interests.

National set-aside program

That Federal legislation be enacted to authorize a National Set-Aside program which would embrace all milk producers. Such a program would not be in conflict with UDIA, but serve as a means of expanding its effective programs, provide necessary additional funding and increase the number of participating dairymen.

STATEMENT OF IRVIN J. ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC.,
SAN ANTONIO, TEX.

My name is Irvin J. Elkin. I live near Amery, Wisconsin. We operate what might be called a typical Wisconsin family dairy farm where we milk 40 Holstein cows. We produce all the forage and most of the concentrates consumed by the dairy herd and market them through milk, as is typical for thousands of Wisconsin farms. I work in the dairy barn and the fields; when I'm away from the farm my wife and sons do the feeding and milking. I am a member of Associated Milk Producers, Inc. and my milk is sold through that cooperative.

I have served as President of Associated Milk Producers, Inc. since December, 1974. AMPI is owned and operated by about 32,000 currently active member dairy farm families whose 27,000 farms are located in 20 midwest and southwest states, delivering nearly 12 percent of the total domestic milk marketed. AMPI's only purpose is to maximize returns to dairy farmers for milk through maintaining a marketing system that provides: (1) Dependable daily outlets for all milk its members produce and deliver to market. (2) Adequate and stable milk prices.

We accomplish the daily marketing task through selling about 70 percent of our member milk to others for further processing and distribution, and through manufacturing the remaining milk in our own plant system into storable products, such as non-fat dry milk, cheese and butter. We work for adequate and stable milk prices through defending our excellent U.S. milk marketing system against damage through lack of understanding of its superb performance; we also work to improve its performance where possible. That system was built primarily through the efforts of pioneering dairy farmers in their trial and error approaches to solving marketing problems. The system was developed to be consistent with public needs. It is not designed to keep all dairy farmers in business—it has, in fact, only maintained a measure of stability while literally millions of dairy farmers have been eliminated, in deference to competition from the larger, more specialized, and more efficient dairy farms, which were able to survive on the lower profit margins per unit.

That marketing system depends upon government participation. Governmental involvement is required in several regulatory areas; in addition, there are four economic areas wherein governmental activities are essential to continued effective milk marketing, in the public interest: (1) Federal and/or state milk orders. (2) Milk price supports. (3) Restrictions on imports. (4) Strong farmers' cooperatives.

Each of these important facets of the milk marketing system are subjected to frequent criticism and proposals for damaging change, without recognition for the outstanding public benefits of the system. Even though those attacks can be attributed to self-serving motives of the critics, they are damaging, and they do prompt tinkering and erode the performance of the marketing system.

I should point out that dairy farmers who are members of AMPI have no different interest in the impact of governmental programs and governmental intervention upon farm milk prices than do the producers of the remaining 89 percent of U.S. milk marketed. The value of all producer milk in the U.S. is affected quite uniformly by the impact of these programs.

The public policy to encourage adequate domestic milk production to meet domestic needs has been reaffirmed by Congress several times. We strongly support that policy as being in the public interest. We believe that the cost of the minimal governmental involvement associated with the U.S. milk marketing system is very small compared to the consumer costs that would result from a totally "free market" for milk. In AMPI we officially recognize that governmental involvement in milk marketing matters must be justified on the basis of the public benefits from such intervention, and not on the basis of the benefits that accrue to dairy farmers.

Government policies tend to be subject to superficial criticism when only short-run circumstances are considered. One example was in 1977, when CCC purchases appeared to be high, in the view of many observers. Yet the public interest was obviously served well by the 1977 product removals under the price support program during the short-supply market beginning in mid-1978, when consumer prices rose sharply and moved far above price support levels. The price support floor in 1977 had prevented market prices from falling by an estimated additional \$2.00 per hundred to clear the 1977 market of surplus. Thus, price supports provided cash incentive for more farmers to continue in business and to retain dairy cows that otherwise would have been sold. This prevented even further increases in consumer prices in 1978-79. Furthermore, CCC butter stocks moved back to the commercial trade in substantial quantities in 1978-79, placing an effective ceiling on wholesale butter prices at 110 percent of support prices.

The overall performance of the U.S. milk marketing system presents an excellent record of service to U.S. consumers. The system has never been geared toward the goal of keeping dairy farmers in business, as do the dairy policies of some EEC countries. Rather the programs have been limited to the purpose of adequately supplying U.S. consumers with milk. In contrast the EEC programs have generally kept more farmers in business than were needed to meet their domestic needs, and large surpluses of milk have been purchased by their governments. Those surplus products create heavy pressures for the respective governments to sponsor export dumping programs, directly impacting our own price support program. We are particularly sensitive to any wavering on the part of Congress in its resolution to sustain our long-standing policy to produce adequate domestic supplies of milk to meet domestic needs. Our sensitivity is partly due to the fact that we have no doubt that if our milk price support program is operated in such a way as to minimize short-term price fluctuations and to sustain dependable milk supplies over a period of years, that there will be years in which government purchases of product will be deemed by critics as being excessive; such years are unavoidable because of the nature of cows and dairy decision-making.

When dairying is providing unsatisfactory returns, the productive capacity tends to shrink too fast and too far. When this happens, several years of much higher milk prices are necessary. Those prices must be high enough to stimulate dairy farmers to make a long-term financial commitment to increase milk production and to create the new milk cows needed. Therefore, the short-run criticisms of Treasury costs at times of cyclical highs in surplus removals, if they prompt lower milk prices, can cause long-term damage to American productive capacity and productivity. This is many times more expensive to consumers than would be the Treasury cost of providing the needed stability through proper timing of relatively small incentives to sustain milk production. The amount of surplus milk or the extent of market shortages in any given year have little relationship to that year's farm milk prices. Changes in milk productive capacity are stimulated or limited by the degree of farmer's confidence that their long-run dairy investment will be more profitable than other alternatives open to them.

Let me mention a few points that illustrate the excellent performance of this marketing system on behalf of consumers:

(1) Dairy product prices have not increased as much since 1967 as have prices for either "all foods", or "all items" in the Consumer Price Index, as shown here:

CONSUMER PRICE INDEX

	1967	August 1979
Dairy products.....	100	208.6
All foods.....	100	236.3
All items.....	100	221.1

(2) Average milk production per cow has more than doubled since 1949; 5,272 pounds in 1949; 11,240 pounds in 1978.

(3) The number of man hours of labor required to produce 100 pounds of milk has been reduced through more efficient production from 2.36 hours in 1950 to 0.37 hours in 1978.

(4) Consumers have benefited from dairy efficiencies generated within this marketing system. "Real" prices for dairy products (minutes of manufacturing labor required to purchase) have declined as follows:

MINUTES OF MANUFACTURING LABOR REQUIRED TO PURCHASE DAIRY PRODUCTS

	Butter 1 lb.	One-half gallon of milk	American cheese one-half lb.	Ice cream one-half gallon
1950.....	29.6	15.8	11.7	35.6
1978.....	14.1	8.6	9.3	14.2

(5) The number of commercial dairy farms has decreased from about 600,000 in 1950 to something below 200,000 in 1979; we believe that the forthcoming census of agriculture will disclose that even among the remaining 200,000 commercial dairy farms, 60,000 are so small as to add very little to the U.S. domestic marketings of milk, and that for all practical purposes, the domestic commercial milk supply is furnished by not more than 140,000 dairy farms. This illustrates the extremely rapid "efficiency" adjustment that has occurred under our U.S. milk marketing system.

We maintain that the nation's dairy herd is a valuable national resource that merits public insistence upon its preservation at the level that will efficiently meet public needs. Shifting dependence to other nations as a source of supply of dairy products is a dangerous public policy.

It is especially fool-hardy to shift dependence to countries where the milk is produced only through government production subsidies and from whence it can be exported to the U.S. at competitive prices only through government export subsidies. It is equally damaging to the U.S. consumer and producer if the imported products are available only because a government sponsored pool enables producers to uniformly share the burden of an export program, netting farmers a lower average price for the quantity of milk used for export than for that portion used domestically.

The U.S. progress in improving milk quality is ignored almost totally in deliberations over import policies. Some time ago, Senator Nelson determined that a very small percentage of imported dairy products are inspected at ports of entry, and further, that a shocking percentage of the products inspected were unacceptable because of contamination by insects, rodents and/or chemical or drug residues.

The end result of such imports, from any foreign source, is to increase Treasury costs of the U.S. price support program, create additional pressures for the Secretary of Agriculture to announce milk price goals at the legal minimum, hold the U.S. milk price down to the price support floor for longer periods, and ultimate shrinkage of U.S. milk productive capacity.

Governmental policies permitting such shrinkage in milk productive capacity is reminiscent of our policies for shifting dependence over to the attractive O.P.E.C. oil supplies of a few years ago. The O.P.E.C. oil price of today should serve adequate notice of the consequence of similar policies for milk and dairy products.

These points are important because the 1979-80 price support program will be expected to absorb additional dairy products displaced by damaging imports, both through MTN dairy concessions and through the growth in casein imports. The Administration has thus far refused to recognize the material and growing impact upon the price support program of imported casein as a displacer of domestic milk. The Administration and the Congress have tended to minimize the damaging effect of imports. We do not agree that the effects are insignificant. If I understood his statement correctly, Senator Nelson, who has proposed legislation to enact a permanent minimum price support level of 80 percent of parity, views the MTN dairy concessions and their relevance to our price support policies as follows:

(1) If the effect is insignificant, as claimed by U.S. negotiators, there is every reason to re-enact the 80 percent floor and to announce a price goal between 80 and 90 percent of parity to assure domestic milk supplies:

(2) If the effect is significant, as seems obvious to U.S. dairy farmers, the higher level of price support is necessary to provide some measure of compensation to dairy farmers for assuming the cost of policies that benefit the public at large.

In order to understand the public benefits from the stable prices that are possible through proper operation of the milk price support program, one needs to look at the recent history of milk prices. The attached Exhibit No. 1 is a monthly comparison of the announced milk price support goals and the prices actually received by dairy farmers as reflected in the Minnesota-Wisconsin price series for manufacturing grade milk, both series adjusted to 3.5 percent butter fat. Both lines express the values in dollars per hundredweight. The price announced by the Secretary eroded during each period as a percentage of parity. We calculated an average percentage which is entered below each price support period on the chart; that percentage figure reflects the average percent that each month's price support goal bore to that respective month's parity equivalent.

Allow me to direct your attention to the years 1972 and the first half of 1973. During that time commercial market prices strengthened and rose strongly above the price support level. By mid-1973 domestic supplies were so short that commercial market prices rose drastically. The Administration, ill advised by the cost of Living Council, concluded in late 1973 that a simple solution to the "high" consumer prices for dairy products would be to take advantage of foreign surplus products available for dumping. Those products were imported in massive quantity in wave after wave, for the explicit purpose of breaking farm milk prices. That policy decision ignored a basic fact that dairy farmers were faced with greatly increased feed costs because of our expansion in feed grain and soy bean exports. The erroneous presumption was made that dairy farmers will continue to deliver sufficient quantities of milk, irrespective of their costs and returns. The National Milk Producers Federation brought legal action to require enforcement of the countervailing duties law. That legislation required that a duty be collected equal to government subsidies paid on dumped imports.

Recognition that the duty was required assured fairer price competition, restrained imports and permitted commercial market price increases. These increases were resumed in mid-1975, reflecting the need for additional domestic milk production. Those strong prices, although fluctuating quite widely, were maintained through most of 1976 and resulted in higher domestic milk supplies, requiring CCC removals in 1977 and for the first half of 1978. The price support level in 1977 and for the first half of 1978 was fully validated when, beginning in mid-1978 and continuing into 1979, supplies were short enough to drive commercial prices substantially above supports. Obviously, without the additional cows and farmers preserved by the 1977-78 price support activity, commercial market prices would have been substantially higher in 1978-79.

Any automatic trigger designed to permit lower price goals would likely have been activated in 1977-78 and it would have been in error, resulting in even higher consumer prices in 1978-79. Such a trigger would have activated also in 1974. That too would have been an error; imposed because of governmental manipulation of imports and resulting in even much higher consumer prices in 1975 and 1976. While the principle of a trigger provision which would permit emergency reductions in the price support level may be appealing, it appears obvious that the stabilization objectives of price supports could not be achieved if such a trigger mechanism became effective.

The questions arise occasionally as to why dairy farmers prefer to have 80 percent as a minimum floor rather than relying upon the discretion of the Secretary of Agriculture to establish an appropriate price level. The Administration is prone to yield to pressures to reduce or minimize administered price levels on the basis of the short-run effect upon food prices. The Administration yielded irresponsibly to such pressures in 1973 and early 1974 and gained temporary advantages for consumers, but the action resulted in huge long-run costs for consumers. The Administration could have minimized consumer price increases in 1975-76 through higher price support goals in 1974-75. The Administration could have reduced consumer price increases in 1978-79 with higher support price goals in 1977-78. Dairy farm decision-making is long-run in nature and cannot be satisfactorily responsive to government policy decision-making based on short-run circumstances, if supply-price stability is the objective.

Exhibit No. 2—Table 1 from page 10, Dairy Situation, October 1978. This is a summary of prices announced under the price support program from 1949 through 1978 compared to the average market level of manufacturing milk in the U.S. The extreme right-hand column of figures reflects average prices received by dairy farmers. In the 30 years of price support operations described here, there were only

six years in which U.S. average prices for manufacturing milk fell below 80 percent. A sustained period of low market prices from 1962 to 1965 culminated in market supply shortages driving prices upward in 1966 to average 90 percent of parity. Market prices then sustained a level in the mid to high 80's for five years. Prices in the low 80's in 1970-71 and 1972 were followed in 1973 by an average price of 91 percent of parity, substantially above price support levels to correct excessive shrinkage in productive capacity in response to unsatisfactory prices in 1970-72. The import manipulations of 1973-74 affected domestic market prices and CCC purchases quite drastically for several years.

IN SUMMARY

(1) Consumer costs for milk and dairy products can be minimized only through correct milk price signals transmitted through the marketing system to producers.

(2) Short-run surplus milk supplies are unavoidable due to seasonal and irregular variations in milk consumption and due to seasonal, cyclical and irregular variations in milk production. Such temporary surplus supplies, in the absence of price stabilization programs, result in drastic and unrealistic milk price declines.

(3) Experience of the past decade has shown that farm milk prices below 83-87 percent of parity result in short-falls in milk production one to two years later through eliminating too many cows and farmers, with sharply rising prices to consumers.

(4) Experience shows that administrative discretion is subject to pressures because of short-run situations to set minimum milk price supports that are too low to sustain milk productive capacity.

(5) A minimum floor price of 80 percent of parity will best serve the interests of U.S. consumers and farmers alike, and is far more responsible than opening the program to damage through decisions prompted by short-run market conditions.

EXHIBIT I

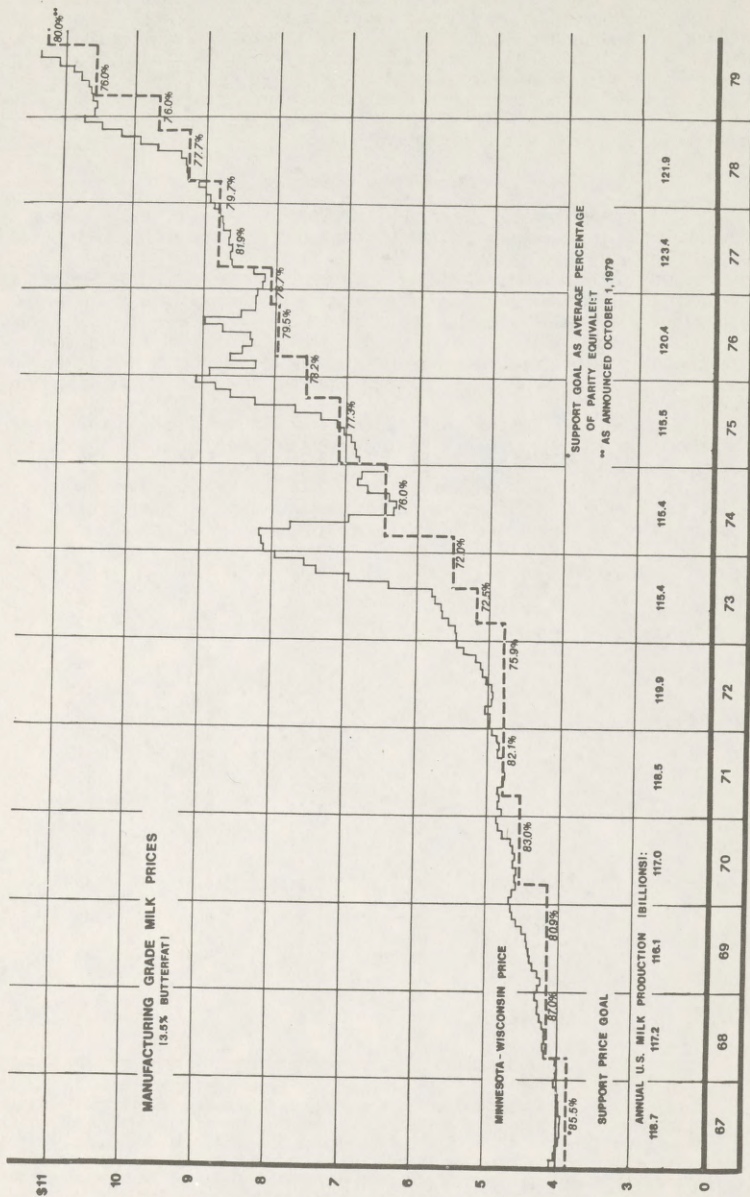


EXHIBIT 2

Table 1--Manufacturing milk: Comparisons of announced support prices and U.S. average market prices paid to producers, marketing years, 1949-78

		Manufacturing milk					
		Support level		Average market level			
Marketing Year	Date beginning in: 1/	Percentage of parity equivalent: 2/	Price per 100 pounds: 3/	Price per 100 pounds:	As a percentage of parity equivalent: In month prior to marketing: year	Average during marketing: year	
		Percent	Dollars	Dollars	Percent	Percent	
1949		90	3.14	3.14	90	89	
1950 4/		81	3.07	3.35	88	85	
1951		86	3.60	3.97	94	93	
1952		90	3.85	4.00	93	95	
1953		89	3.74	3.46	83	84	
1954		75	3.15	3.15	75	80	
1955		80	3.15	3.19	81	82	
1956		82	3.15				
	4/18/56	84	3.25	3.31	86	84	
1957		82	3.25	3.28	83	82	
1958		75	3.06	3.16	77	77	
1959		77	3.06	3.22	81	81	
1960		76	3.06				
	9/17/60	80	3.22				
	3/10/61	85	3.40	3.31	83	83	
1961		83	3.40	3.38	83	82	
1962 5/		75	3.11	3.19	76	76	
1963		75	3.14	3.24	77	77	
1964		75	3.15	3.30	77	78	
1965		75	3.24	3.45	80	79	
1966		78	3.50				
	6/30/66	89.5	4.00	4.11	92	90	
1967		87	4.00	4.07	88	87	
1968		89.4	4.28	4.30	90	87	
1969		83	4.28	4.55	88	86	
1970		85	4.66	4.76	87	85	
1971		85	4.93	4.91	85	82	
1972		79	4.93	5.22	84	80	
1973		75	5.29				
	3/15/73	80	5.61	6.95	99	91	
	8/10/73	81	6.57				
1974		79	7.24	6.87	85	78	
	1/ 4/75	79	7.24				
1975		84	7.71	8.12	89	84	
1976		80	8.13				
	10/ 2/75	81	8.26	8.52	84	82	
1977 6/		82	9.00	7/8.77	80	80	
1977		82	9.00				
	4/ 1/78	86	9.43	9.27	85	79	
1978		80	9.87				

1/ Start of marketing year January 1, 1949-50, April 1, 1951-77, October 1, 1977 to present. 2/ If other than start of year. 3/ Except as noted, this is the actual percentage of the parity equivalent price published in month before the marketing year. In some cases the announced percentages, based on forward estimates of parity, were slightly different. 4/ January 1, 1950-March 31, 1951. 5/ Beginning November 1962, parity equivalent is based on prices for all manufacturing grade milk instead of the "3-product" price for American cheese, evaporated milk, and the butter-nonfat dry milk combination used before. 6/ April-September transition period. 7/ Adjusted to the annual average fat test.

STATEMENT OF PATRICK B. HEALY, SECRETARY, NATIONAL MILK PRODUCERS
FEDERATION

The National Milk producers Federation is a national farm commodity organization representing virtually all of the dairy cooperative marketing associations and their dairy farmer members across the country. We appreciate this opportunity to comment on legislation which has a basic and direct impact on every dairy farmer in America.

Legislation to extend, through September 30, 1981, the minimum 80 percent of parity dairy price support level provided for in the Food and Agriculture Act of 1977 has the full support of the National Milk Producers Federation. Extension of this provision is fully justified as a means of achieving the intent of the price support program, "... to assure an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs."

The operation of the dairy price support program and the authority under which it is conducted are matters of constant review within the Federation. In late July the Federation's Policy Review Committee and Board of Directors made an in-depth examination of issues surrounding this legislation and the administration of the price support program. At the conclusion of this review, the Board of Directors unanimously adopted the following statement:

"The Federation reaffirms its support of legislation extending the 80 percent of parity minimum price support level and the requirement to adjust the support price semi-annually, through September 30, 1981."

This recommendation was based on the assessment that the program has functioned well, both to assure the production of adequate supplies of milk and as the vehicle through which the necessary minimum degree of price assurance is provided all dairy farmers.

The prime intent of the Price Support Program is often not fully understood. The prime focus of the legislation is the assurance of an adequate supply to meet the needs of this market. The directive in the law regarding the maintenance of farm income is based on the need to do so in order to achieve adequate supplies of milk.

In order to obtain the necessary production, it is necessary to maintain a level of farm income sufficient to induce farmers to make the investment, to accept the risk, and to devote the labor and management necessary to bring about the needed production.

The 80 percent of parity minimum price support level provided by the Food and Agriculture Act of 1977 has been functioning well. The leadership exercised by Senator Leahy and other Members of this Committee in making that provision a part of the 1977 legislation has been fully justified.

At the present time, milk supply and demand are in close balance. As a matter of fact, 1978 witnessed an almost perfect balance. 119.2 billion pounds of milk were marketed off the nation's farms last year, while USDA reported domestic commercial demand at 119.3 billion pounds.

In 1978, purchases of dairy products under the dairy price support program were only 55 percent of the level of the previous year and stocks of dairy products held by both the government and commercial interests declined substantially. Actually, commercial stocks of dairy products at the end of 1978 were at their lowest level since the serious depletion which occurred at the end of 1975.

The reduced level of Commodity Credit Corporation purchases and the drawdown in CCC inventories has continued through this year. As the following table shows, the level of purchases and inventories for the 1978-79 marketing year which ended September 30 was substantially below the previous year.

PRICE SUPPORT PURCHASES AND AVAILABILITY

(Million pounds, delivery basis)

	Butter		Cheese		Nonfat dry milk	
	1978-79	1977-78	1978-79	1977-78	1978-79	1977-78
Purchases.....	59.8	147.1	12.4	46.5	202.5	338.4
Inventory.....						
Sept. 30.....	147.1	204.1	(¹)	30.6	445.9	585.1

¹ Less than 50,000 pounds.

Since farm marketings and commercial demand almost exactly equated in 1978, the commodities purchased by the Commodity Credit Corporation represented almost entirely unnecessary imported milk. This is a situation which will be greatly aggravated when the agreements reached under the multilateral trade negotiations go into effect on January 1, 1980. These negotiations resulted in the United States agreeing to a substantial expansion of dairy product imports, most of which will be able to enter this market only because of substantial export subsidization. This will be equivalent to adding almost three-quarters of a billion pounds of milk to our supply which can only be offset by reducing production by our own, more efficient, farmers by that amount. This is a situation which America's dairy farmers cannot understand as being necessary or reasonable.

During 1979, there has been a moderate expansion of milk production. Through August of this year, production was 83.8 billion pounds compared with 83.2 billion for the same period in 1978. 1979 output, however, was still slightly below 1977 which saw 83.9 billion pounds produced during the first eight months of the year.

This expansion has enabled the orderly restoration of commercial dairy stocks and has met the needs of the market. Strong demand has been a major feature of dairy markets in the past two years. 1978 witnessed an increase in per capita consumption of milk and milk products from 551 pounds in 1977 to 558 pounds. While USDA has predicted that the growth in milk consumption this year will be below the 1970-78 growth trend of about one percent per year, it is anticipated that commercial consumption this year will be above last year's level, particularly when one considers population growth.

As part of its ongoing effort to evaluate government policies and programs, the Congressional Budget Office made a detailed analysis of the dairy price support program early this year. In doing so, CBO studied several alternative levels of price support and evaluated their impact on consumers and dairy farmers. Addressing the question of extending the 80 percent of parity minimum price support level, the report concluded: "In short, this option offers stability and will not cause any major changes in current conditions for dairy farmers, consumers or taxpayers." The report presents a balanced view of the issues involved in this question and we commend it to you for your consideration and study.

There is no magic or secret as to what must be done to secure the production of any commodity. Some means must be found to provide the return needed to induce producers to devote the resources necessary to obtain that production. In the case of milk, in 1978 it took a total of \$12.7 billion in farm income to bring forth the 119.2 billion pounds of milk marketed by farmers.

To continue to meet the demand of the market it will be necessary to put the equivalent of 12.7 billion 1978 dollars on the nation's dairy farms. More than this will result in milk supplies in excess of needs. Less than this will mean reduced milk production. The price support program has proven to be an effective instrument in guiding the market toward price levels that will achieve that goal while providing a degree of price assurance so that farmers can plan their operations with confidence and assurance. Since it took a price support level of 80 percent of parity to achieve the balance of 1978 and to maintain that balance into this year, every indication points toward at least this minimum level of support being necessary to maintain this through 1980 and 1981.

The nation has continued to face an inflationary spiral that has touched everyone. Food prices have risen. The costs of those items needed to produce, process and transport that food have risen as well. Too often we hear that the single, simple answer to inflation is to, in the case of the dairy industry, reduce milk prices. Such an assertion is based on the erroneous assumption that the same quantity of milk will be forthcoming from our farms at lower prices. This is simply not the case.

In the case of the dairy industry, we are all too familiar with the results of inflation control policies which seek to artificially restrain prices. During 1973 and 1974, a series of actions were taken specifically for the purpose of reducing the price of milk and dairy products. In each instance, it was said that these steps were not aimed at reducing milk prices at the farm. This was the unavoidable result however. These actions resulted in American dairy farmers reducing production by almost five billion pounds in 1973. Pressing even further, government actions resulted in a drop of more than 22 percent in the basic farm price for milk during a 90 day period in mid-1974. This was followed by the most rapid and uncontrollable rise in product prices the industry has witnessed as the depleted industry was unable to respond to market needs. From mid-1974 to the end of 1975, wholesale butter prices advanced over 70 percent. Cheese prices rose by 43 percent. This is the fruit of actions which attack the basis for production. The result served neither farmers nor consumers.

The stability of price provided through the dairy price support program, properly administered, can prevent events of this type.

A review of the performance of consumer prices for milk and dairy products demonstrates the beneficial effect of the program on consumer costs. The Consumer Price Index rose by 95 percent between 1967 and 1978 and the All Food element of that index advanced 111 percent during that period. The prices for dairy products, however, rose by 86 percent, markedly less than either the overall index or its All Food component. In August, 1979, the Consumer Price Index stood at 221.1, the All Food Index was 236.3, while the All Dairy Products Index was 208.6 (1967=100).

In measurable, real terms, the cost of milk products has declined over the years and is lower today than ever before. In 1965, it took 10.9 minutes of work by the average American factory worker to earn enough to purchase a half-gallon of milk. Last year, it took 8.6 minutes of work. Similar comparisons for manufactured dairy products yield similar results.

The dairy price support program is carried out by providing a degree of price assurance to farmers. If it operates as intended, the actual prices received by farmers will be determined in the market place through much of the year. This is the situation at the present time. Last month, farmers received \$11.18 per hundred-weight for manufacturing grade milk. This compares with a price support level of \$10.51 that was in effect until October 1. Thus, market forces are working to guide farmers in their decisions.

Secretary of Agriculture Bergland has announced a price support level of 80 percent of parity or \$11.22 cents per hundredweight for manufacturing milk effective October 1.

In view of the Secretary's action, one might question the need for this legislation. Approval of the pending legislation will signal dairy farmers that the stability and assurance that has permitted them to plan their operations in an orderly manner will continue for the next two years.

The dairy price support program has worked well and has met the mandate of Congress to assure adequate supplies of milk for this market. The amendments to the Act provided by the Food and Agriculture Act of 1977—the 80 percent of parity minimum price support level and the requirement that the support level be adjusted semi-annually—have strengthened the program and provided the basis for orderly growth and development within the dairy industry. By any measurement, whether it be in terms of consumer costs, government expenditures, or farm income, the proper decision at this time is for the approval of an extension of the 80 percent of parity minimum price support level through September 30, 1981.

STATEMENT OF E. LINWOOD TIPTON, ECONOMIST AND EXECUTIVE ASSISTANT, MILK INDUSTRY FOUNDATION AND INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

I am E. Linwood Tipton, Executive Assistant for the Milk Industry Foundation and the International Association of Ice Cream Manufacturers.

The Milk Industry Foundation is a trade association representing 380 processors and distributors of fluid milk and fluid milk products throughout the United States. The member companies of the association operate 820 plants and process about 75 percent of the total fluid milk processed, bottled and consumed in the United States.

The International Association of Ice Cream Manufacturers is a completely separate and autonomous organization representing ice cream manufacturers. Its 270 member companies operate 640 plants which manufacture about 80 percent of the total ice cream and related products consumed in the United States.

MILK PRICE SUPPORT PROGRAM

Milk processors and ice cream manufacturers are most interested in maintaining a dairy support price program which will assure reasonable returns to dairy farmers and stabilize milk production. In the absence of a milk price support program, we fear prices would fluctuate widely and production would be erratic. This would not be in the interest of dairy farmers, processors or consumers.

As processors, we are also most interested that support prices be set at reasonable levels—levels which do not force the price of milk above other competing products, unnecessarily, and which are reflective of dairy farmer cost.

MILK SUPPORTS UP WELL ABOVE THE RATE OF INFLATION

Milk support prices have been increased by \$1.62 per hundredweight in the last twelve months. They are now 16 percent above the level of a year earlier. This is

considerably in excess of the overall inflation rate as reflected in the Consumer Price Index.

MILK SUPPORT PRICES

	Milk support price	Cost of production	Percent annual		
			Change P/S	Change CPI	Change C/P
Oct. 1, 1977.....	9.00	9.70	9	6	-4
Apr. 1, 1978.....	9.43				
Oct. 1, 1978.....	9.87	9.53	10	9	-2
Apr. 1, 1979.....	10.76				
Oct. 1, 1979.....	11.49	10.53	16	12	10

SUPPORT PRICE ALREADY SET FOR YEAR

Exercising his authority under existing law, the Secretary of Agriculture set support prices at 80 percent of parity, 5 percent above the 75-percent minimum for the forthcoming marketing year. The law also requires that this be indexed to reflect any change in the parity index during the first six months of the marketing year. We anticipate that this will require another increase of about 70-80 cents, about 6 or 7 percent, on April 1st, 1980.

Because support prices have already been set for the year, and because the increase for the past three years has been so large, we believe it is unnecessary to raise the 75-percent minimum as required by present law to 80 percent as would be done by these bills.

Milk production has increased quite significantly in the past few months, and virtually all of the factors affecting future levels of production indicate further increases are in the offing:

The number of milk cows continues to decline, but at a decreasing rate.

The milk/beef price ratio is reasonable, indicating no significant increase in culling.

Milk production per cow is again increasing more in line with the historical rates.

The milk feed price ratio continues to be favorable to heavy feeding rates.

In view of these facts we believe it would be unadvisable to increase the required minimum at this time. If milk production does not increase as much, or as rapidly as we anticipate, there will be adequate time to reassess the situation before the new marketing year begins on October 1, 1980.

STUDY AND REVIEW NECESSARY

We believe the remainder of 1979 and 1980 can be spent most profitably in studying and evaluating both the price support and federal order programs, with a view toward improving their effectiveness and coordination. There are a number of questions that should be addressed and answers sought.

In the past only limited quantities of manufactured milk products were produced in federal order plants. Ten years ago only about one-third of the manufactured dairy products were made from Grade A milk subject to regulation by the federal order program. However, in 1978 the proportions were reversed. About two-thirds of the butter and cheese produced in the United States came from plants regulated by federal milk orders. Nearly 80 percent of the ice cream, and virtually all of the cottage cheese, yogurt and numerous other perishable manufactured products are now made from milk subject to federal orders. Thus both the federal orders and price support programs apply to much of the same milk. These are major changes which may warrant some modifications to these two federal dairy programs. It raises questions about the role of these two programs. Are their objectives consonant with each other? Could they, or should they be more closely aligned?

The last Congressional overview of dairy policy was conducted by the Congress in the 50's. During the past few years many allegations and charges have been levied at the programs. We believe the time has arrived when they should be carefully reviewed and some of the challenging questions addressed.

To assist in this review, our associations appointed a "Regulatory Policy Review Committee" and selected several of the most renowned dairy and agricultural food

policy experts in the United States to participate. Their report has been completed, and we hope it will be helpful in discussing dairy policy.

The work has been conducted under the general direction of Dr. John Schnittker, who distinguished himself as a former Undersecretary of Agriculture, and in numerous other capacities. He is one of our country's outstanding authorities on agriculture policy.

Assisting Dr. Schnittker is Dr. Emerson Babb, the eminent Professor of Dairy Marketing at Purdue University. Dr. Babb has been a prodigious author and researcher of dairy marketing programs. He has developed a most complete computer model designed to test alternative dairy policies.

Dr. Jerry Hammond of the University of Minnesota comes from the heart of our nation's milk production area. Dr. Hammond has served on numerous research groups which have studied and analyzed various aspects of the price support and federal milk marketing order programs.

Dr. Ronald Knutson of Texas A & M brings to the committee a wide range of experience in dairy marketing and agricultural policy. Dr. Knutson did his undergraduate work at the University of Minnesota, later served on the Purdue faculty, was Staff Economist at the United States Department of Agriculture, and later Director of the Farmer Cooperative Service. He now is Professor of Agricultural Policy at Texas A & M.

Dr. Allen Luke of Washington State University had a most distinguished career in Washington with the USDA and as a Federal Milk Market Administrator before becoming general manager of a major dairy cooperative. He is now Professor of Dairy Marketing at Washington State University. His knowledge of federal milk marketing order provisions is truly outstanding.

Dr. Robert Story, Professor of Dairy Marketing at Cornell has become known as "Mr. Milk" among his colleagues in the northeast. He brings a vast knowledge of the dairy industry in the northeast, the federal milk marketing order program and the price support program. It is appropriate to note that 26 percent of all the milk subject to federal marketing orders is regulated by the three orders in the northeast, ranging from Washington, D.C. through the New England area.

The committee was asked to review present dairy policies both with respect to the federal milk marketing order program and the price support program, consider alternative policies which might be appropriate; describe and analyze them; and then describe the impacts on various sectors which might be expected from the alternatives they selected to study. Where possible, they were asked to quantify the impacts, but where this was not practical, to describe in the narrative the direction of the impacts. The committee was not requested to make any specific recommendations as to which of the alternatives they would propose.

With respect to the price support program, the following policy alternatives were analyzed:

(1) *Price supports based on parity—at 75 percent; at 80 percent and at a flexible level ranging between 75 and 80 percent of parity based on CCC acquisitions.*

(2) *Price supports based on a "specific dairy parity."* This is an index developed by the committee and uses the individual indices which go into the parity index. However, the individual indices which go into the parity index are weighted by the relationship each bears to the cost of producing milk instead of the weights used in the present parity index, i.e.:

The parity index weights feed costs at 12 percent but feed costs represent about 50 percent of the farmers cost of producing milk. Feeder livestock has a 12 percent weight in the parity index but replacement stock represents about 5 to 6 percent of the cost of producing milk.

(3) *Price supports based on cost of producing milk.* These are adapted from USDA estimates of the average cost of producing milk in the United States. The methods which have been used to estimate cost are generally the same as those utilized in establishing support prices for other commodities.

(4) *Price supports based on production cost, or some other predetermined base and making direct payments to dairy farmers if actual prices fall below the target price.* This would be similar to the price support program for other commodities whereby the market is generally expected to clear itself, instead of the government buying surplus commodities through the CCC. However, if the price of milk to dairy farmers falls below the target price, a direct payment would be made to make up the difference.

Obviously, each of these has many variations, but these four should provide a good basis to judge the impact of changes to price support policy. Each of these alternatives has been evaluated based on the assumption that the federal milk order program remains about the same as it now exists.

In addition to studying alternatives to the support price program, several changes to the federal order program were analyzed also. Among these are:

(1) *Continuing the Class I differentials about like they are presently established.* The committee views this as a slow form of federal order deregulation in that Class I differentials would not keep pace with transportation costs and market prices would be expected to continue to increase above federal order prices, probably at an accelerating rate in view of the rapid increase in transportation costs. This places more emphasis on the price support program.

(2) *Eliminating the part of the Class I differential which has been justified on the basis of the higher cost of producing Grade A milk for bottling, (about 90 cents), but then set the Class I price differentials at about either 2/3rds or 90 percent of the actual costs of transportation.*

(3) A number of other alternatives are also discussed by the committee but the impact was not quantified. Among the other alternatives are:

(a) *Removing Class I differential completely*, allowing Class I prices to be set by market forces, but retaining the auditing and classification provisions.

(b) *Returning the Class I differential to those who in fact ship milk to bottling plants* instead of prorata to all dairy farmers.

(c) *Changing allocation provisions to remove economic restrictions from moving milk between markets.*

(d) *Changing the pricing of reconstituted milk products.*

(e) *Changing pooling provisions*, and several others.

I believe one experience of the committee might be worth relating because it bears directly on both the price support and federal order programs. At the first meeting, when the committee was organizing itself to study the situation, it agreed to look at the price support program and the federal order program separately. They also agreed they would develop and evaluate alternatives under three general scenarios of—minimum, moderate and maximum regulatory programs. They also agreed that, after having performed their evaluations separately for each of the programs, they would then describe how the two programs might be integrated more fully and evaluate consequences which might flow from more coordination and integration.

At the second meeting, this approach was abandoned. It had become evident that any review of dairy policy needed to include both the price support and the federal order programs, viewed jointly and simultaneously. Historically and by congressional mandate, the price support program has been the mechanism to obtain an *adequate production of milk for all uses*. Historically the federal order program had been viewed as the regulatory mechanism for assuring that a *segment of overall production meets the sanitation requirements for bottling milk and is available for fluid milk consumers*. Obviously there is a considerable overlap of the purposes and objectives of the two programs. The committee realized that the distinctions which have been made and the separate roles ascribed to the two programs in earlier years are no longer as clearly distinguishable. Therefore, they decided to perform their evaluation and study them both simultaneously.

There are two or three general impressions that seem to permeate the study:

First, the dairy price support program, which is one of the few support programs still based on parity, is not consistent with the support programs for other agricultural commodities. The price support program for most of the other major agricultural commodities beginning with the Food and Agricultural Act of 1977, are based on cost of production concepts with more freedom in the marketplace and direct payments to growers when necessary, to assure a return commensurate with costs.

Second, the increasing quantities of milk meeting the health and sanitation requirements for fluid milk uses, along with the tremendous increase in transportation costs, have rendered the justification of the present Class I differentials inappropriate. In fact, by not changing Class I differentials, there now exists, in effect, a deregulation process. This stems from the fact that prices are now being set by market forces and the federal order price is not, and has not been for a number of years, the effective price in most areas.

The study seems to raise several questions—among which are: Should milk support prices be determined separately, and should the price support policy for milk be totally different than that applicable to other commodities? What are the objectives to be accomplished by federal milk marketing orders in the future? What is the policy with respect to establishing Class I differentials? What is the purpose of the Class I differential in terms of present marketing conditions and the milk price support program?

We believe these are questions which must be addressed and should be carefully studied by all who are concerned with dairy policy. We stand ready to help—not in

an effort to reduce prices to dairy farmers, or to see a demise of the dairy farmer, or to diminish the production of milk in the United States—but quite the contrary. Our goals are to increase efficiency, enhance production, and get milk to consumers at fair and equitable prices.

We hope the study of the committee of experts will help lay the groundwork for an improved and better coordinated dairy policy. We hope apprehensions about dairy policy can be reduced. We believe they will be as the stated policy and purpose of federal orders and milk supports become better aligned with actual provisions. The gaps between past policy and present provisions of federal orders must be reduced. The role and purpose of the federal order and price support programs in today's dairy industry must be determined and government actions must be consistent with the stated policy.

Mr. Chairman, we appreciate the opportunity to appear and hope your committee will carefully review the study.

STATEMENT OF JOSEPH WESTWATER, VICE PRESIDENT, DAIRYMEN, INC., LOUISVILLE, KY.

I am appearing on behalf of the dairy farmer members of Dairymen, Inc. Their farms are located primarily in the southeastern states of Virginia, North Carolina, South Carolina, Indiana, Kentucky, Tennessee, Georgia, Mississippi, Louisiana and Alabama.

Our members respectively urge you to approve the legislation pending before the Committee to continue the minimum support level for milk at 80 percent of parity through September 30, 1981. Similar legislation has been approved by the House Committee on Agriculture and is awaiting action by the full House.

The legislation for maintaining the minimum of 80 percent of parity expired last month. The Secretary of Agriculture has announced that the Department would continue the 80 percent minimum for the marketing year which began October 1. However, we believe that it is imperative to have the 80 percent minimum set for two years by law.

The 80 percent of parity minimum has been in effect since 1977 and the nation's milk supply and demand situation is in extremely good balance. A similar provision was part of the Agriculture and Consumer Protection Act of 1973. That expired in 1975 and, while bills to extend the provisions were vetoed on two occasions, administrative action was taken maintaining the support level at 80 percent of parity. The minimum support level of 75 percent of parity which was effective in prior years encouraged dairy farmers to either shift to production of other commodities or leave farming completely. In fact, it was not too long ago that our nation's milk production totaled 127 billion pounds. In recent years, production has approximated 122 billion pounds. It seems to be adequate of demand for fluid milk and manufactured dairy products. It appears that milk production this year will be slightly in excess of production last year but somewhat below that of 1977. Demand for milk and milk products continue strong.

Inventories of dairy products in government warehouses are also down significantly. Government holdings of cheese are practically non-existent. Butter inventories are down 28 percent and holdings of non-fat dry milk are down 22 percent. Milk production in the southeast is running about at the same level as a year ago and down slightly since 1977. The above statistics testify to a reasonably good balance between milk supply and milk consumption.

As you are well aware, the numbers of those leaving dairying have accelerated in recent years. A few years ago, Dairymen, Inc. had in excess of 10,000 members. Because of sell-outs, Dairymen, Inc. now has approximately 6,300 members. Without the assurance of a minimum of 80 percent of parity, I am afraid that we will see the numbers of dairy farmers who quit begin to rise, thereby causing a tightening of the nation's milk supply. Because of this tightening supply, market forces will press milk prices upward to encourage farmers to stay in milk production. In our judgment it would be far more effective to eliminate some of the risk factor through a minimum price support requirement of 80 percent of parity for two more years to achieve a reasonable balance between milk supply and demand. Without this assurance, we run the risk of abrupt increases in milk prices due to declining production. Such a situation would be followed by increasing milk production until prices plummet, thereby encouraging farmers to quit in droves. This instability in the industry serves neither the producer nor the consumer. It seems more rational to eliminate some of the risk factor that a law guaranteeing a minimum of 80 percent of parity through September, 1981 would provide.

Thank you very much for the opportunity to present our views on this important matter.

STATEMENT OF RAY MOSS TUCKER, FINCHVILLE, KY.

My name is Ray Moss Tucker. I live at Rt. 1, Finchville, Kentucky. The farm we operate is rolling and probably best suited for a dairy herd. We could convert to a beef operation—row crop farming on our land would be out of the question.

Ours is a family-type farm—although family-type farming has changed considerably from what it was a few years ago. Presently, my mother lives on the farm, my wife and I, my son, Gil, and my daughter, Ann, who are through school, and we all gain our entire livelihood from the operation of this farm. Gil has a son, Ray III, which means that we have four generations of Tuckers on our farm.

Like all dairy farmers, our hours are long and the work is hard, but we enjoy our way of life. However, the investment in the dairy industry today is so high that the assurance of 80 percent of parity is extremely important to us. While all dairymen appreciate the action taken by Secretary Bergland to extend 80 percent of parity, we are looking to Congress to reestablish 80 percent of parity to provide stability in the market place over a longer period of time. I know many producers have demanded 90 percent and 100 of parity, but we must be realistic. While I, too, would like to have the maximum percentage, I recognize it is not realistic—but I do feel 80 percent of parity is a reasonable request. Let me sight a few examples.

I am a member of the Dairymen, Inc. Our membership area is divided into divisions. I am part of the Kyana division, which primarily covers Kentucky and the southern third of Indiana. Currently, we have 1,806 members in our division, or a decrease of 59 members in the last twelve months. This is just an indication of the trend that has been going on for some time. Just four years ago, on my county road, which is four miles long, there were ten dairy farms. Today, there are three. One of the major reasons people are discontinuing dairying in my neighborhood centers around cost and quality of labor available. Even at 80 percent of parity, we cannot compete with industry in terms of paying high enough salaries to get the best qualified help. With cattle costing on the average of \$1,400 or \$1,500 each, we simply cannot put that type of an investment in the hands of minimum-wage people.

In order to create the efficiencies that are necessary to compete in today's economy, we must depend on large-scale farming, which includes large-scale equipment, and one must hire a well-qualified man to trust him with a \$30,000 tractor or a \$30,000 silage chopper.

One of our most successful young dairymen, Leon Creech, had a sale about three months ago, and sold his entire milking herd of 106 cows. The reason he sold the herd was because he lost his two hired men and wasn't able to find satisfactory replacements at the salary range that he could afford to pay. As a measure of Mr. Creech's potential to succeed in the dairy industry, the herd that he sold had a herd production average of 17,000 lbs. per cow per year, which puts him in the top 5 percent or 10 percent of the dairy farmers in the state of Kentucky. In terms of equipment cost, I bought a round baler this spring. If I would have bought it a year ago, I could have purchased it for 30 percent less. Referring to this large equipment, it's hard to imagine the amount of fuel used, and fuel costs have increased a third since the House Agricultural Subcommittee on Dairy and Poultry held hearings on this same issue.

We have a modern milking parlor. It was built four years ago at approximately \$40,000. If I would replace it today, including equipment and building, it would cost me \$70,000, or an increase of 75 percent or more. We are currently milking 107 cows and without this facility, it would simply be impossible to get the job done.

Hardly a month goes by that our veterinarian bill isn't in excess of \$500.00. Seven years ago, our veterinarian bill for the entire year was \$426.00. Yet probably the most disturbing thing centers around the fact that present day dairy cattle are very high producing animals, and we are pushing them to the maximum in terms of milk production. As we put stress on cattle for production, we increase the potential of physical breakdown. A few years ago, we had many more drugs to treat cattle to maintain their production, but in recent years, Food and Drug have outlawed so many effective treatments that even with the large veterinarian bills, we are finding the cost of production increasing and we cull more cows than ever before because the treatment is ineffective.

Right along this line, as dairy farmers go out of business, those remaining must continue to expand to stay in business, and the high cost of beef has forced up the price of replacement dairy cows to where it is nearly impossible to buy young

replacements. Of course, we attempt to raise most of our replacements. The price of the replacement cows has doubled in the last few years.

Today, all of us are in the economical squeeze of inflation. Even with 80 percent of parity, I feel confident we are going to have a continued trend in the loss of dairy farmers in the United States, and also, I project a decline in the total milk production in the United States. For two years now, many predicted a production increase but it just hasn't happened. This summer and fall the weather was cool and grass was good which should have resulted in higher milk production. Some areas have had increases while others have declined in production, but overall production trends indicate it will take 80 percent of parity to maintain a milk supply.

As the years go by, the investment in a dairy farm has increased drastically. Without some price security, we could lose enough producers to result in a shortage of milk. If this happened, milk prices would have to increase sufficiently to attract investors back into the industry. Certainly a price structure to maintain production would be far less costly to the consumer than the cost necessary to rebuild the industry. 80 percent of parity should maintain milk production and is the most economical way for the consumer to maintain a supply of milk.

Dairymen are aware of the increasing cost of government resulting from inflation and do not want to add to this burden, but we do need your assurance in terms of income, and, again, we feel 80 percent of parity is realistic under the present circumstances.

STATEMENT OF CY CARPENTER, PRESIDENT, MINNESOTA FARMERS UNION

Mr. Chairman. We appreciate the opportunity to testify today in support of S. 6 and S. 80 on behalf of the 250,000 members of the National Farmers Union and the 6,000 dairy farmer members of the Farmers Union Milk Marketing Cooperative. We commend the subcommittee for calling this hearing on legislation of critical importance to U.S. milk producers.

S. 6 and S. 80 would extend until September 30, 1981, the requirement that the Secretary of Agriculture maintain the price support level for milk and milk products at no less than 80 percent of parity.

Delegates to the 77th Annual Convention of the National Farmers Union in Kansas City March 11-14, 1979, adopted a policy statement calling for dairy price supports at 90 percent of parity. We recognize that the subcommittee is not considering legislation requiring that level at this time and that the House has approved bills comparable to S. 6 and S. 80. We are here to support these bills, but wish to note that they do not go as far as our members would like.

We are disappointed that S. 910, Senator Nelson's bill establishing 80 percent of parity as the minimum milk support level permanently under the law, is not being considered. We believe S. 910 would better serve the public's interest in stable supplies and prices in the 1980's. Hopefully the subcommittee will consider such a permanent amendment to the Agriculture Act of 1949 when it takes up a new comprehensive Food and Agriculture Act in 1981.

The Agriculture Act of 1949, as amended, requires that support prices for milk and milk products be set at a level which will 1) assure an adequate supply of milk to meet current needs, 2) reflect changes in the cost of production, and 3) assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs.

Looking at current milk supplies, production costs, and anticipated demand for milk and milk products next year, it is clear that 80 percent of parity is the very minimum at which these objectives can be achieved. A look at the past three years, when milk prices were supported at 80 percent of parity, also leads to the conclusion that the stability provided by this minimum level serves consumers and producers alike. We have not experienced any product shortages—as we did earlier in the seventies—and the inevitable price surges that accompany such shortages. On the other hand we have not experienced burdensome surpluses and the inevitable consequences for producers and support program outlays which accompany them. What we have experienced is supply and price stability: milk production in almost perfect balance with demand and consumer prices which have risen slower than the general inflation rate for food products.

Even the highly respected Congressional Budget Office, with no vested interest in the level of milk supports, has concluded that 80 percent of parity milk supports better serve the public's interest than a lower level. In its March 1979 report, "Consequences of Dairy Price Support Policy," the CBO concluded, "80 percent parity support for milk offers price stability and will not cause any major changes in current conditions for dairy farmers, consumers, or taxpayers." While 75 percent

of parity offers, "lower consumer prices and taxpayer costs, nevertheless at this support level incomes of dairy farmers would fall, and price instability is more likely to occur than at 80 percent of parity support prices," the CBO report states.

MILK PRODUCTION

U.S. milk production during the first seven months of calendar 1979 totaled 83.8 million pounds, three-fourths of one percent more than the same period in 1978. There were 10.7 million milk cows in the nation's dairy herd in August, down about 100,000 head or nine-tenths of one percent from a year earlier. The average U.S. milk cow produced 968 lbs. of milk in August, 2.5 percent more than 944 lb. average in August 1978.

Agriculture Department economists, in the most recent *Dairy Situation* summary issued October 3, predict U.S. milk production for all of 1979 will be about one percent greater than the record 122 billion pounds produced last year. This projection assumes normal weather, pasture and feed conditions. We feel that this is a reasonable estimate, based on information currently available. However, in concurring with the department's estimate, we do want to point out how difficult it is to make such predictions in the dairy industry. Often these projections have proved wrong due to unrecognized factors, or giving inappropriate weights to some factors, and the fractions of a percent they may be off represent sizeable volumes of milk which can influence prices substantially.

While total milk production in 1979 thus far has trended slightly upward, production of key manufactured dairy products has shifted in response to shifting consumer demand. American cheese production during the period Jan. 1-Sept. 27, 1979, totaled 1,688 million lbs., 5.8 percent more than in the same period last year. But butter production during that same period totaled only 753 million lbs., 3.6 percent less than a year earlier. Production of nonfat dry milk in July 1979 was running three percent below a year earlier. These shifts from product to product while the total milk supply remains relatively stable and in balance with consumer needs are testament to the value of the price support program and how effectively it has worked in recent years with the minimum support level maintained at 80 percent of parity.

CONSUMPTION

Commercial demand for milk and milk products is steadily increasing. Commercial use in July and August was a full one percent above a year earlier. If demand during the fall months is unchanged from a year ago, commercial use for 1979 will total about one percent above 1978. If commercial use this fall continues to top year earlier levels, the 1979 total will exceed 1978 by more than one percent.

Demand for dairy products has been rising the past 24-months at rates consistently exceeding Agriculture Department forecasts. A sharp jump in per capita cheese consumption has more than offset a slight decline in fluid consumption—while per capita butter sales have been steady—producing the overall boost in demand for milk.

Predicting commercial demand for dairy products is more hazardous than forecasting supply. The increase from 1970 to 1979 has averaged one percent per year, but year to year changes at some points have approached five percent. Herein lies the difficulty in determining what support level will meet the third criteria under the Agriculture Act of 1949—"assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs." Just how much demand growth should be allowed for, recognizing its unpredictable short-term nature and steady long-term trend?

Clearly a program designed to induce a five-percent production increase—just in case demand should surge—would be folly. It would be just as foolish to induce a reduction in milk production for fear of weakening demand. Both approaches are foolish because the risk is run that production and consumption will be moving sharply in opposite directions if you are wrong. We believe the dairy price support program should be designed to accommodate the underlying trend—the one percent per year growth rate experienced during the past decade—and that a milk support level below 80 percent of parity would be counterproductive. Support levels below 80 percent of parity have generally reduced milk production contrary to the underlying trend. It is significant that the "boom and bust" results of such policy have not been experienced in the dairy industry since 80 percent was firmly established early in 1977.

CCC REMOVALS

Purchases of dairy products by the Commodity Credit Corporation (CCC) under the price support program have declined dramatically in the past two years. Net purchases during the marketing year just ended (Oct. 1, 1978—Sept. 30, 1979) were about one-percent of the domestic milk supply down from 2.6 percent in the previous marketing year and well below the average 3.4 percent over the period 1970-1978.

The low level of purchases has reduced CCC inventories of dairy products to their lowest levels since the early 1970s. CCC butter stocks declined 28 percent, nonfat dry milk stocks dropped 23 percent, and cheese stocks fell to zero in the marketing year ended September 30, 1979.

The sharp decline in CCC purchases and government outlays under the dairy price support program during the past two years are important facts for considerations, and support the case for this legislations. But we believe due attention should also be paid to the underlying trend—the 3.4 percent average during the seventies.

Virtually every free market nation with a dairy industry of any significance has programs comparable to the U.S. program to stabilize supplies and prices. Yet none, to our knowledge, have our enviable level of government involvement—or outlays. The U.S. price support program cost only an estimated 130 million dollars in the 1979 marketing year, less than one percent of the farm value of all milk, compared to four billion dollars spent by the European Community to purchase nearly 20 percent of the EC supply. The U.S. experience in the seventies not only compares favorably with other nations, it is an improvement over earlier years in the U.S. In real terms—allowing for inflation—federal outlays for the dairy price support program have declined from earlier decades.

COST OF PRODUCTION

The second criteria under the Agriculture Act of 1949 to be considered when establishing the milk support level is changes in the cost of producing milk.

USDA's Index of Prices Paid by Farmers for Commodities and Services, Interest, Taxes and Wage Rates increased 13.9 percent in the year ended September 15, 1979, while the Index of Prices Received by Farmers for Dairy Products increased only 12.4 percent. The prices paid index increased 154 percent from 1967 to 1979, compared to only a 144 percent increase in prices received for dairy products over the same period. The real price of milk—determined by comparing retail milk prices and manufacturing worker wage rates—has declined 17 percent since 1974.

We are well aware of the ongoing debate over the accuracy and relevance of the parity index with respect to the cost of producing given farm commodities. But we believe those who focus on the mechanics of the index are evading the real issue. Certainly the index is just that—a yardstick on which we compare one period with a previous period—and not a measure of the actual cost of producing anything. The critics of the parity index tend to focus on items that boost the index without a corresponding increase in the actual cost of producing a specific product, while ignoring items that reduce the index without a corresponding decrease in actual production costs.

The parity index is neutral. It does not favor producers any more than it hurts them because it falls as well as rises without a corresponding change in the actual cost of production.

No index can accurately reflect changes in the cost of production because there is no single cost of production. It will vary depending upon local and individual circumstances—such as entering versus established producers. The cost of producing milk is not really necessary anyway—it is the change from period to period that is important. And we firmly believe that the parity index is as good a yardstick as any alternative proposed by its critics.

The attack on the parity index as an adjuster of milk support prices is not really based on the belief that it is inadequate or inappropriate for measuring change, but that price support levels are escalating too rapidly and can only be slowed by junking parity as the adjuster. This premise assumes that the profitability of dairying as a business and the real cost of dairy products have both increased over the years that the parity index has been used. But the opposite is true in both cases. Dairying has become less rewarding economically when compared to other sectors and the real cost of dairy products has declined.

Only the equity in dairy farms has increased at anywhere near the rate of income growth for the rest of society. This increase, while substantially, is not unique to

dairy and no doubt is more a result of inflation and the attractiveness of farmland as an investment than the parity index or the price support program.

The significant increase in the value of a typical dairy farm—now estimated to be \$300,000 for a 50-cow herd—poses a real problem; but a problem that has nothing to do with the parity index or support program. The problem is the obstacle these prices are to the next generation of family dairy farmers who hopefully will exist to produce the milk needed by U.S. consumers. It is difficult to compute how any entering farmer can finance an investment that size at today's milk prices and have any net income at all. It still happens of course, but only because of the many unpaid hours of family labor and management that combine with luck and probably some off-farm income to make it possible.

While today's farmers are able to produce a adequate supply of milk to meet consumer needs at today's milk price levels, it may prove impossible to transfer their resources to the next generation of family farmers, even if prices keep pace with inflation. The problem is not unique to milk producers, nor can it be completely addressed simply by altering price support policies. Agriculture Secretary Bergland has identified the problem, for which we commend his foresight, and called for a national dialogue on the structure of agriculture which hopefully will lead to a consensus on how to deal with it.

We believe Senator Nelson's bill, S. 910, establishing 80 percent of parity as the minimum milk support level permanently, would likely be beneficial in this regard. That is one reason we hope it will get serious consideration in 1981. A permanent 80 percent guarantee would allow rural lenders to give more weight to the experience and abilities of prospective farmers since the potential for a severe cost-price squeeze in the early years would be reduced. We do not believe such a permanent guarantee would be immediately capitalized in land values because the inflation of land prices appears to be totally unrelated to fluctuations in the agricultural income potential of land. While milk cow and replacement heifer prices might react by rising, it is more likely that they would continue to reflect short-term milk price fluctuations.

SUMMARY

Milk prices have been firmly supported at 80 percent of parity since early in 1977. With the exception of the past six months, producers have been able to look down the road at least a year and count on the level. Milk production has risen only slightly over that period at a rate fairly close to the increase in commercial demand. Demand has been strong and increasing, averaging one-percent per year over the past decade.

The near perfect balance between supply and demand the past three years has steadily reduced government outlays for dairy price support program purchases and reduced government owned stocks to the lowest levels since the early 1970s. Outlays during the last dairy marketing year ending September 30, 1979, will total about 130 million dollars, we estimate. That is less than one percent of the farm value of U.S. milk, compared to outlays of four billion dollars by the European Community representing about 20 percent of the farm value of EC milk production. CCC purchases from 1970 thru 1978 averaged only 3.4 percent per year, an enviable performance compared to other nations with comparable stabilization programs, and earlier decades here in the U.S.

Retail dairy product prices have risen slower in recent years than the rate for all foods or consumer prices in general. The real cost of dairy products when measured against the hours of labor necessary to buy them has declined 17 percent since 1974. The purchasing power of dairy farmers derived from milk income has declined relative to other sectors of the economy. Only by donating their labor, and perhaps subsidizing themselves with off-farm income, can new dairy farmers get started since they must finance an average investment of \$300,000 for a 50-cow operation.

Commercial demand for milk and milk products in the future is difficult to forecast. There is little evidence that the marked increases experienced the past two years will cease or that the one percent per year growth rate of the 1970s will be reversed. Therefore, sound policy should induce a slight but steady increase in the domestic milk supply.

Experience has shown us that milk support levels below 80 percent of parity do not induce production of an adequate supply over extended periods and ultimately cause supply/demand instability which harms consumers as well as producers. Independent economists, such as those who prepared the Congressional Budget Office report last spring, have reaffirmed this.

Guaranteeing a minimum milk support level of 80 percent of parity is essential to meet the sound criteria in the law and serves the public's interest in a stable supply of a basic food at stable and reasonable prices. Therefore, we urge the subcommittee

to favorably report this legislation extending the 80 percent of parity minimum support level for milk until September 30, 1981.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

We appreciate the opportunity to outline our views with respect to legislation to set the minimum price support level of milk at 80 percent of the parity equivalent for manufacturing milk.

Farm Bureau is the largest general farm organization in the United States with family members in 2,831 county Farm Bureaus in 49 states and Puerto Rico. Many of these families are involved in dairy production and consequently are concerned with the problems of the dairy industry and the factors affecting markets for dairy products.

At the 1979 annual meeting of the American Farm Bureau Federation, the official voting delegates of the member state Farm Bureaus adopted the following policy:

"Our objective is to obtain the full market price. To maintain a healthy dairy industry and comply with provisions of the milk support program requiring an adequate supply of milk, we urge that milk be supported at a level that will not encourage overproduction. We support extensions of the current dairy provisions of the Food and Agriculture Act of 1977. . . ."

Nationwide, the supply-demand situation for milk and dairy products is in good balance and producer prices are relatively good. We are supporting S. 6, which would set the minimum price support level for milk at 80 percent of parity through September 1981. In our opinion, a minimum of 80 percent of parity will assure consumers an adequate supply of milk and maintain a healthy dairy industry. We do not think it would be desirable to raise the statutory minimum to 85 percent of parity.

STATEMENT OF LELAND MULDER, PRESIDENT, WISCONSIN FARMERS UNION

Mr. Chairman and members of the committee: Wisconsin Farmers Union supports Senate Bill 80, introduced by Senator Gaylord Nelson, which would extend the minimum support level for dairy prices through September 30, 1981. Previously this year we testified in favor of Senator Nelson's legislative proposal for a permanent extension of the 80 percent of parity dairy support minimum. We still believe dairy farmers are economically justified in seeking the permanent extension, but politically it does not appear to be a viable alternative at this time.

We all recognize that the number one concern of Americans is inflation. The increase in the prime lending rate to 14½ percent this week has sent shock waves throughout the economy. Farmers undoubtedly will find it harder to obtain borrowed money and will have to pay more for what they do get. Inflation is already taking its toll among dairy farmers. Farm operating costs are currently 14 percent higher than a year ago. In terms of 1967 dollars, Wisconsin farmers are about at the same purchasing power level as they were 12 years ago.

In September, dairy producers paid an average of \$160 per ton for 16 percent dairy ration, up \$23 from a year earlier. Other feed costs including corn and hay prices, have gone up even more rapidly. The prices paid by all farmers for fuel and energy in mid-September were up 44 percent from a year ago.

In the past five years, farm costs have gone up more than farm milk prices. Milk prices have also been declining relative to average wage levels. These factors, combined with the high capital investment-high financial risk nature of dairying, have influenced dairy farmers to drop out of business in record numbers. U.S. dairy farm numbers experienced a 65 percent decrease from 1950 to 1978.

The Trade Agreements Act of 1979, recently passed by Congress, will further erode dairy farmer income by raising cheese import quotas. University of Wisconsin Economist Truman Graf has computed the cost of the additional imports of cheese under the trade agreements at \$3,927 for each dairyman annually.

Wisconsin dairy farmers who produce a large share of the Nation's manufactured dairy products are particularly vulnerable to the price depressing effects of dairy imports.

Senator Nelson, representing the Nation's leading milk producing state, is well aware of what a thriving dairy industry means to the economy of Wisconsin.

In 1978, cash receipts of U.S. dairy farmers increased about 8 percent to a total of \$12.7 billion. Of that figure, Wisconsin farmers received about \$2.1 billion. The income from dairying represents 60 percent of the total income of \$3.5 billion from agriculture to the State of Wisconsin. Our 1978 milk production of 21.3 billion

pounds accounted for 17.4 percent of U.S. production. We produce 38 percent of the Nation's cheese and 25 percent of the butter. The processing of dairy products accounts for a tremendous amount of employment and economic activity in Wisconsin. Wisconsin is the leading reservoir of surplus milk in the Nation. Eighty-five percent of our total milk production is exported out of the state either in the form of fluid milk or manufactured dairy products.

Wisconsin farmers, with the exception of those living in the southern tier of counties, have no viable alternatives to dairy farming. Climate and topography in most of the state is best suited for dairying. Congress recognized the pre-eminence of dairying in Wisconsin when it recently appropriated \$9 million for a U.S. Dairy Forage Research Center to be built in Madison and Baraboo, Wisconsin.

A prosperous dairy economy is vital to the well being of the American people. Dairy farmer prices, supported at 80 percent of parity will help maintain a healthy domestic dairy industry and assure consumers of ample supplies of highly nutritious dairy foods.

STATEMENT OF JOHN W. SCOTT, MASTER, NATIONAL GRANGE

The National Grange, the nation's oldest general farm organization, is in strong support of S. 531, a bill to amend the Federal Meat Inspection Act to allow the interstate movement of all meat food products which are processed by federally-inspected establishments and which are derived from meat which has been slaughtered or processed at certain state-inspected establishments.

The Grange has been a strong supporter of the Meat Inspection Act and has repeatedly sought to have the Act amended to allow for the interstate shipment of meat slaughtered in state-inspected plants when that state meat inspection program has been found equal to or better than the federal inspection requirements.

The bill now under consideration does not go as far as the Grange would like it to go, but it is an improvement over the present situation that prohibits any interstate movement of meat not slaughtered in a federally-inspected plant.

If passed, this bill would allow state-inspected meat packing plants, in states that have been certified as having inspection requirements that are "at least equal to" federal requirements, to sell their product to federally-inspected plants. This will allow the smaller plants to sell partially-processed meat to the big plants for further processing. It will also provide the small plants with new outlets for meat byproducts, and it will give the large plants a new source of supply. This will increase both competition and efficiency throughout the industry, and it will help put an end to the destruction of the smaller plants.

This is important not only to the affected businesspeople, but to the industry as a whole. By limiting the markets of the smaller, state-inspected plants, we are reducing their economic efficiency and thus contributing to their demise. This, in turn, increases the concentration of a few large packing plants and results in less competition. Many cattlemen are concerned about this situation and we are concerned also.

It is for these reasons that we respectfully urge this subcommittee to report favorably S. 531.

We would appreciate this statement being made a part of the hearing record. Thank you.

Calendar No. 427

96TH CONGRESS
1ST SESSION**S. 6**

[Report No. 96-400]

To amend the Agricultural Act of 1949, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 15, 1979

Mr. LEAHY (for himself, Mr. STAFFORD, Mr. BENTSEN, Mr. BOREN, Mr. BOSCHWITZ, Mr. BURDICK, Mr. CHURCH, Mr. COCHRAN, Mr. DANFORTH, Mr. DOLE, Mr. HEINZ, Mr. HELMS, Mr. HUDDLESTON, Mr. MCGOVERN, Mr. MELCHER, Mr. MOYNIHAN, Mr. NELSON, Mr. PROXMIRE, Mr. RIEGLE, Mr. STEWART, Mr. STONE, Mr. TALMADGE, Mr. THURMOND, Mr. YOUNG, and Mr. ZORINSKY) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

NOVEMBER 6 (legislative day, NOVEMBER 5), 1979

Reported by Mr. LEAHY, with an amendment, and an amendment to the title

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To amend the Agricultural Act of 1949, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 ~~That section 201 of the Agricultural Act of 1949, as amend-~~

1 ed, is amended by striking out the second sentence in subsec-
2 tion (e) and inserting in lieu thereof a new sentence as fol-
3 lows: "Notwithstanding the foregoing, effective for the period
4 beginning on the date of enactment of this Act and ending
5 September 30, 1981, the price of milk shall be supported at
6 not less than 80 per centum of the parity price therefor."
7 That (a) the second sentence of subsection (c) of section 201
8 of the Agricultural Act of 1949, as amended (7 U.S.C.
9 1446(c)), is amended by striking out "March 31, 1979" and
10 inserting in lieu thereof "September 30, 1981".

11 (b) The first sentence of subsection (d) of such section (7
12 U.S.C. 1446(d)) is amended by striking out "March 31,
13 1981" and inserting in lieu thereof "September 30, 1981".

Amend the title so as to read: "A bill to amend section 201 of the Agricultural Act of 1949, as amended, to extend until September 30, 1981, the requirement that the price of milk be supported at not less than 80 per centum of the parity price therefor."

96TH CONGRESS
1ST SESSION

S. 80

To amend section 201 of the Agricultural Act of 1949, as amended, to extend until September 30, 1981, the requirement that the price of milk be supported at not less than 80 per centum of the parity price therefor.

IN THE SENATE OF THE UNITED STATES

JANUARY 18 (legislative day, JANUARY 15), 1979

Mr. NELSON (for himself, Mr. PROXMIRE, and Mr. MCGOVERN) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To amend section 201 of the Agricultural Act of 1949, as amended, to extend until September 30, 1981, the requirement that the price of milk be supported at not less than 80 per centum of the parity price therefor.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That (a) the second sentence of subsection (c) of section 201
- 4 of the Agricultural Act of 1949, as amended (7 U.S.C.
- 5 1446(c)), is amended by striking out "March 31, 1979" and
- 6 inserting in lieu thereof "September 30, 1981".

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1 (b) The first sentence of subsection (d) of such section (7
2 U.S.C. 1446(d)) is amended by striking out "March 31,
3 1981" and inserting in lieu thereof "September 30, 1981".

96TH CONGRESS
1ST SESSION

S. 910

To amend section 201 of the Agricultural Act of 1949 to require that the price of milk be supported at not less than 80 per centum of the parity price therefor, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 5 (legislative day, FEBRUARY 22), 1979

Mr. NELSON (for himself, Mr. MCGOVERN, Mr. MELCHER, Mr. MOYNIHAN, Mr. PROXMIRE, and Mr. LEAHY) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To amend section 201 of the Agricultural Act of 1949 to require that the price of milk be supported at not less than 80 per centum of the parity price therefor, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) subsection (c) of section 201 of the Agricultural Act
4 of 1949 (7 U.S.C. 1446 (c)) is amended to read as follows:
5 “(c) The Secretary shall support the price of milk at
6 such level not in excess of 90 per centum nor less than 80
7 per centum of the parity price therefor as he determines nec-

1 essary to assure an adequate supply of pure and wholesome
2 milk to meet current needs, reflect changes in the cost of
3 production, and assure a level of farm income adequate to
4 maintain productive capacity sufficient to meet anticipated
5 future needs. Such price support shall be provided through
6 purchases of milk and the products of milk.”.

7 (b) Subsection (d) of section 201 of such Act is amended
8 by striking out “Effective for the period beginning on the
9 effective date of the Food and Agriculture Act of 1977 and
10 ending March 31, 1981” and inserting in lieu thereof “Effec-
11 tive beginning on the effective date of the Food and Agricul-
12 ture Act of 1977”.

STAFF EXPLANATION OF S. 6, S. 80, AND S. 910

S. 6 and S. 80 amend the Agricultural Act of 1949 to extend through September 30, 1981, the period during which the Secretary of Agriculture must support the price of milk at not less than 80 percent of parity. (The minimum level of support required under existing law is 75 percent of parity.)

S. 80 also extends through September 30, 1981, the period during which the Secretary must make adjustments at the beginning of each 6-month period after the beginning of the marketing year to reflect estimated changes in the parity index during such semiannual period. (In the absence of new legislation, the requirement for semiannual adjustments would terminate on March 31, 1981.)

S. 910 amends the Agricultural Act of 1949 to make permanent the requirement that milk be supported at not less than 80 percent of parity with semiannual adjustments.

DEPARTMENTAL VIEWS

The Department recommends the enactment of legislation to extend through September 30, 1981, the requirement that milk be supported at not less than 80 percent of parity with semiannual adjustments. However, the Department recommends the adoption of an amendment giving the Secretary the authority, under certain circumstances, to withhold making an increase in price support that would otherwise be required.

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