Developments for the 70's

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Developments in the Dairy Industry for the 70's

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If it is possible to have a heartwarming experience on a cold winter morning in Milwaukee, Wisconsin, this is such an occasion for me. First, we were personally and professionally delighted five years ago with the formation of the American Association of Bovine Practitioners. The vision and the statesmanship of your leadership at that time has resulted in immeasurable benefits to the dairy industry. Since our life, too, is committed to the welfare of those who own and tend the foster mothers of the human race, we welcome every increase in professional advancement which makes the dairy cow more efficient because of her improved health and regular reproduction.

It is also an unexpected pleasure to be in the company of many friends of twenty years or more, such as Drs. John Quinn, Lee Allenstein, Jim Pirie, Dave Bartlett, Wally Dreher, John Herrick and B. W. Kagy. So, in some respects, this morning is a little bit like old home week.

One hundred and fourteen years ago, here in Milwaukee, there was a meeting of the Wisconsin Agricultural Society and one of the guest speakers was a man so little known at that time that the court reporter who recorded the proceedings did not know how to spell his first name. She spelled it Abram. The last name she got correct, it was Lincoln. It was the only agricultural speech that Lincoln ever gave. In preparing my comments for this morning's meeting, I thought it appropriate to use a couple sentences of that speech because they are appropos to the observations I will be making. Lincoln, in starting his speech, said: "You, perhaps, do expect me to give some general interest to the occasion and to make some suggestions on practical matters. I shall attempt nothing more. And in such suggestions by me, quite likely very little will be new to you, and a large part of the rest might possibly already be known to be erroneous."

To assess or attempt to prognosticate developments in the rest of the 1970's is not an easy task because of many powerful economic and political forces currently at play in the dairy arena. Perhaps it will be helpful to understand the current situation if we take a couple of minutes to trace very quickly the almost unbelieveable changes which have occurred in the past twenty-two years, since 1950. As in most historical reviews, there is some bad news and some good news, but the pace of change has been literally fantastic. We have gone from 2,000,000 farmers selling milk or cream to less than 400,000. Our estimate is that there are only 330,000 or 340,000 left today. In other words, about five out of every six who were selling milk or cream twenty-two years ago have now left the dairy business.

We have gone from 22,000,000 cows to 12,000,000 and this is not good news to those who depend on cows as their ultimate clients. The heifer crop has dropped from 7,000,000 to 4,000,000 head.

But those cows remaining have had an unbelievable increase in average production per cow, rising from 5300 pounds to 9900 pounds. Twenty-two years ago, that large dairy cow population produced 117 billion pounds of milk. Today's much smaller herd produces three billion more, or 120 billion pounds. Even more dramatic, from an economic viewpoint, is that the amount of milk sold off the farm has increased from 98 billion to 117 billion pounds. or a net gain of 19 billion pounds.

On the price front, we have gone through extremely trying times with the all milk wholesale price being $3.89 in 1950 and very little above that fifteen years later in 1965. It was up only 34 cents to $4.23. It imposed an economic squeeze on dairymen who saw their costs rising steadily each of those fifteen years, with no compensatory increase in the milk check. Then we came upon good times and from 1965 to the present, in seven short years, the all milk wholesale price has boomed to $6.05, up $1.82 per hundred. Reflecting, however, the inflationary state of affairs, the USDA estimated late last week that 75% of parity for manufacturing milk will be $4.97 next year. It wasn't too long ago that 75% of parity was $3.14. This reveals the impact of increasing costs of production and services on dairy farmers and also emphasizes the necessity for maintaining the price gains which have been achieved in the past seven years.

In 1950, 2,000,000 dairymen split up $3.7 billion of income from sales of milk and cream. Today, about 330,000 remaining dairymen split up $7.1 billion. In other words, milk income per farm is up over eleven times. Obviously, you have fewer but better clients, clients more able to afford your fine professional services and pay their bills when rendered.

As we look to the last of the 1970's, we must look at the potential benefits which may be derived from the milk marketing revolution which got its start about four years ago. I refer, of course, to the manifold mergers of milk marketing and processing cooperatives throughout the land. These have resulted in the highly publicized, and sometimes notoriously criticized, Associated Milk Producers, Inc.; Mid America Dairyman; Dairymen, Inc.; Milk, Inc.; Mountain Empire, and others. For the first time in history, we have a cooperative, AMPI, doing over $1 billion in business annually for 45,000 dairymen, marketing approximately 15 billion pounds of milk from the Canadian border to the Mexican border. The economies and the efficiencies which can accrue to dairy farmer's benefit, and the bargaining power which these organizations have demonstrated and are demonstrating, give promise of immense benefits to your clients. If these new structures are wisely led, and we believe they will be, and if the spirit of cooperation among the newly merged organizations continues, then the economic welfare of dairy farmers will be greatly enhanced and much more secure. The unknown in all this, of course, is whether or not the courts will agree with dairy farmer cooperative leadership that the provisions of the Capper-Volstead Act permit this unifying movement to continue.

Another area of today's concern to dairymen who desire the higher degree of economic stability is that of existing minority rule in milk marketing. A bargained, marketwide price structure can be quickly broken when as little as two or three percent of the producers on the market fail, or refuse, to live up to the marketing agreement. When this happens in a market such as Chicago, a sound, stable pricing structure begins to crumble because all dealers must be competitive in the industry, all must be treated equally so far as prices and services are concerned.

This is what is behind activity in Washington which has been referred to as agricultural bargaining and/or majority rule in marketing of milk. While every effort to attain such enabling legislation will be made, it is probably doubtful that it will be enacted by the Congress because of the dwindling proportion of congressmen vitally interested in the economic welfare of farmers.

On the national supply-and-demand front, we are today in the most favorable supply-demand situation that has existed since 1952. For the first time in these many years, the government is not obligated to be in the market, buying manufactured products to undergird the national milk pricing structure. Whether this happy state of affairs will continue is difficult to assess. I will be most interested in the observations that Mr. Laster might have on beef cycles. Some four years ago, a highly knowledgeable analyst in the beef industry predicted the collapse of beef prices in 1972. This we have not had. You may wonder why I am so concerned about the beef industry. The reason is very simple and very direct. The impact of current cow beef prices on the culling market is very dramatic. This was proven in 1953 and again in the early 1960's. For example, twenty years ago when beef prices dropped $9 per hundred, our culling rate in the dairy industry dropped precipitously and we had an increased milk production of between five and six billion pounds almost overnight. Many who sit by the banks of the Potomac observe that it takes a long time to breed a cow, get a heifer and raise her to producing age. Thus, they have theorized that switches in milk

production and response to price changes are slow. This may be true in response to the price of milk, but the impact of a sharp change in the price of cull beef has been demonstrated dramatically twice in the past two decades.

Why are we concerned by the supply-and-demand balance? Because of the inelasticity of the demand for our products. On inelasticity of demand, I refer to the worth of a second meal after you have been well filled by the first. If you paid $6.00 for dinner last evening and your appetite was satisfied, you would pay very little for the second meal. So it is with the national stomach and national market. The impact of this is that in a completely free dairy market, an increase of 10 percent in the supply results in a 40 percent decline in the farm price of milk. And, likewise, a decrease in supply brings a corresponding increase in the farm price of milk. This is why you have read and heard a lot about base and supply management programs in the past ten years. And we would forecast that should we have a return to the conditions which prevailed in 1953 and 1961, there would be a great deal less rhetoric and far more positive action on the supply management front so that dairy farmers will not be forced to take a sharp price decline as they suffered in those earlier years.

There are a couple of other developments on the Washington scene which merit our watching very carefully. First, there is the proposal before Congress for the creation of a Consumer Affairs Agency, an independent agency funded by the government to represent consumer interests. It has broad bipartisan support in the Congress and only a filibuster, or a threat of a filibuster, prevented it from being enacted into law last summer prior to the election. On the surface, the agency appears to be one of those benevolent instruments to be praised for its promise. Those of us in the food industry, however, have reason to be concerned. For example, in dairying, the price of milk in federal milk marketing areas is very carefully regulated by the federal government, under authorization of the Agricultural Marketing Agreement Act of 1937. There is a technical hearing procedure which must be followed in documenting the formula which is used by the government in assuring the orderly marketing and pricing of milk in federal order areas. There is reason to believe that a spokesman for the proposed agency would be inclined to intervene in such hearings to depress or hold down the price of milk and dairy products to consumers, thus bringing about a negative economic impact insofar as dairy farmers are concerned. Attempts are being made to modify the broad powers proposed for the agency, denying it the privilege and obligation of going to court to challenge or negate USDA milk pricing orders. It is suggested that the power of the agency should be limited to a role as "a friend of the court," filing briefs and arguments representing consumer viewpoints but preventing long, costly, drawn-out litigation.

Only last week, another report appeared in the press which we have feared for the past seven or eight years. Reportedly, there was a meeting in Washington recently on agricultural trade policy. It is the apparent position of a study group on imports that the market for U.S. feed grains can be materially enhanced during the 1970's to the extent that agricultural exports can be increased from the current $8 billion level to $20 billion by 1980, thereby helping to cure the nation's balance of payments deficit. In order to open up the overseas markets for our feed grains, it will be necessary to remove current controls on imports of dairy products, cotton, sugar and other products of lesser national market importance. The net effect of this move would be to seriously jeopardize the price structure for, roughly, half of the national milk supply. Pricing would have to be competitive with New Zealand butter, normally priced about half the price of U.S. butter, largely because of climatic advantages and a government-fostered, extremely low wage scale.

The seriousness of the report of last week can be found in our international trade situation where we have been running a dangerous deficit, not only in the balance of payments but in the balance of trade. Six days before President Nixon imposed wage and price controls a year ago, August 15, we were privileged to meet, along with nine other people, privately with the President in the cabinet room with no one else present except Herb Klein, his director of communications. While the discussion there was confidential, it is no violation of confidence to indicate that the wage and price controls proposed by the President last year were the direct result of a rapidly worsening balance of payments and balance of trade problem. Our wage increases in this country over the past few years have been so inflationary and so unconscionable that we have priced ourselves out of world markets. Our imports of high-labor input goods have risen dramatically. The only bright spot in this entire trade picture is the efficiency and productivity of the American farmer, and this is about the only major area of competitive economic advantage our country enjoys at the present time, the other - computer technology.

With this historical backdrop and the pressing need for correction of this deficit situation, it is understandable, we believe, why the dairy industry should take this report very gravely. It is entirely conceivable that we could see arrayed against us in this debate in Congress, the State Department, the Treasury Department, the Office of Management and Budget, the Council of Economic Advisors, and several key committees in Congress. Obviously, consumer groups would favor such a move because of promised cheaper food from overseas. And, in our judgment, there is no way for the American dairy farmer to produce 35 and 40 cent butter with the wage and cost structure we have in the American economy. We hope our concern on this issue is unfounded, but in light of our intelligence received at the White House last year, and as the result of our reading since that time, we believe the industry must prepare for a major struggle because it is doubtful we will have many allies, even in our own agricultural segment, since the grain producers of the country will benefit materially.

It has not been my intent this morning to deliberately paint a cloudly picture of the future of dairying. Like you, however, we have to practice preventive medicine. We have to see the threats to the industry and move to prevent those threats from becoming a reality. Unfortunately, this causes us to be more concerned with problems than with eulogizing and praising our strength. Self-glorification may satisfy the ego, but it rarely provides progress in an industry. All we have attempted to do this morning is highlight areas of concern to provide you with an insight into this industry of which you are a very vital part.

On the plus side, we could spend an equal amount of time documenting the remarkable gains which have been achieved in the past few years in production per cow, production per man, improved health, efficient marketing, nutrition research, milk product development, and many others. In a nutshell, we believe the dairy farmer and his segment of the industry has never been in a stronger position than it is in today. If dairymen practice preventive medicine on the economic and marketing fronts, as you and your clients practice it on the livestock health front, the future can be very bright.

The dairyman of the 70's is no longer a general farmer with a moderate investment in his dairy enterprise. He is rapidly becoming a sophisticated businessman. With a large investment in his business, his stakes are much higher. He is better educated, better informed, and more willing to take those steps necessary to insure his economic well-being. He knows the economic power of an inelastic demand for his product. He is aware of the bargaining power gained through effective horizontal integration compared to gains to be achieved from vertical integration.

Looking to the future, I guess I am placing my faith in men; those men who counsel with courage rather than fear; men who are firm, rather than flabby, in their convictions; men who act rather than react.

Armed with this confidence, I will close with a tongue-in-cheek projection of what is going to take place during the remainder of the 70's.

I predict that in 1980, the American dairy cow will still have four teats, spaced equidistant and of uniform size. She will still have four stomachs; require protein (or the building blocks therefor), energy, fiber, vitamins, and minerals to manufacture milk. She will refuse the five- or four-day week. She will be milked by devices somewhat more efficient, lighter in weight, and shinier in sheen than those which now are suspended from her mammary gland. Despite the efforts of legions of white-coated scientists and sanitarians, she will still survive in an environment that is not wholly sterile. She will resist but not be immune from microbial warfare, which is the lot of the biological creature in an exposed environment.

Though her milk and the products therefrom will continue to cause industrial internecine warfare, lead lawyers to debate, judges to pontificate, bureaucrats to regulate, economists to prognosticate, editors to elucidate, legislators to legislate, presidents to ponder, and ambassadors to negotiate . . . she will ruminate!

Though we humans will push her, shock her, psychoanalyze her, inject her, bulk handle her, hormonize her, sanitize her, coax her, and even beat her, she, in her tolerant and placid manner, will insist on being a contented cow, even amidst all the frantic machinations of ulcerous man.

And when man is forced into early retirement because of the ravages of his frustrated endeavors, he will turn again to this kindly and beneficent creature as one of the chief sustaining forces of human life.

Thus endeth the fearless forecast.