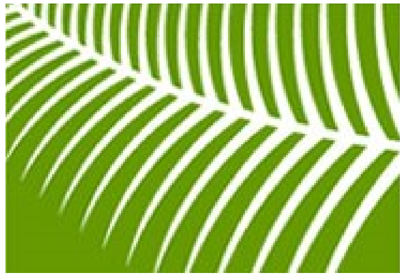

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

1.90
C2008
C2

PROCEEDINGS

USDA
NAT'L AGRIC LIBRARY
1991 AUG 28 A 4:19
CURRENT SERIAL RECORD

Agriculture Outlook '92

New Opportunities for Agriculture

68th Annual Outlook Conference

United States Department of Agriculture

Washington, DC December 3-5, 1991

ANNUAL AGRICULTURAL OUTLOOK CONFERENCE
United States Department of Agriculture
Washington, D.C. 20250-3900

Outlook '92 For Release: Tuesday, December 3, 1991

U. S. DAIRY PROSPECTS AND PROGRAMS

Floyd D. Gaibler
Executive Director, National Cheese Institute
Vice President, International Dairy Foods Association

I appreciate the opportunity to participate in the Department's Agriculture Outlook '92 Conference and offer my perspective on the U.S. dairy prospects and programs. As we move toward the 21st Century, the dairy industry uniquely faces many challenges and opportunities. Our ability to overcome those challenges and take advantage of the opportunities will be predicated, in large part, on our willingness to come to terms on constructive and effective long-term dairy policy. Without some fundamental agreements on the basic policy parameters that will guide us into the future, we are placing our industry at risk and constraining our ability to survive and prosper over the long run.

A DECADE OF POLICY DISARRAY

The dairy industry has spent much of the last decade grappling and disagreeing with itself on what parameters should encompass an effective long-term dairy policy. And in reviewing the aftermath of debate over that period, I am uncertain that the dairy industry has learned many lessons.

The problems began with the semi-annual price support adjustments of the late 1970's which raised government supports well above market-clearing levels attracting not only more resources within the dairy industry, but outside the industry as well. The obvious result was an inundation of surplus products which forced the dairy industry to undergo a painful retrenchment. Beginning in 1981, price supports were frozen and then decreased and various supply management techniques were tried, including 50 cent assessments and a milk diversion program.

After many fits and starts, the 1985 Farm Bill established a framework from which the dairy industry could begin to make long-term decisions. Price supports were allowed to move up or down to reflect market-clearing levels. The Secretary of Agriculture had standby authority to consider alternative supply management options. Unfortunately, the political price of market-orientation was the mandated increase in Class I differentials and the whole-herd buyout program. These provisions sent obvious conflicting signals to producers and were clearly at odds with the overall objectives of the legislation to lower government costs and surpluses.

One other provision that was included was the establishment of an industry National Commission on Dairy Policy. The Commission was directed to study the future milk price support program and the future of the milk production industry. After more than 18 months of hearings and meetings, the Commission produced a 150 page document which made several major policy recommendations in 1988. It was hailed as the first unified proposal from the dairy industry that all milk producers — large and small — could embrace.

One of its overriding recommendations was that price supports should not be used to accomplish social goals, stating that the trend toward fewer, larger farms began decades ago and will continue under any farm policy or program. The Commission proposed several elements that should encompass the dairy price support program, including: flexibility, durability, market orientation, consistency, income sufficiency, and reasonable consumer prices.

Specifically, the Commission recommended that the Secretary of Agriculture should have the discretionary authority to adjust the support price either upward or downward. Market forces, together with adjustments in the support price, should balance supply and demand.

Regarding supply management, the Commission stated, "The use of a production control program on a permanent basis is not in the best interest of the dairy industry." The Commission recommended that the Secretary should have options in considering a production control program, primarily to make it more difficult for producers to anticipate a specific type of production control program and thereby circumvent the program's intent. Most importantly, the Commission recommended "A reduction in the support price should accompany controls to discourage increased production by nonparticipants or by milk producers who have adjusted plans to increase production as the program ends."

The Commission recommendations were to lay the groundwork for the debate on fine tuning the 1985 Farm Bill. However, the ink on that document was hardly dry before the industry pressed the Congress for an increase in the price support because of the 1988 drought. The problem was not low milk prices but a feed availability situation. Nonetheless, the Congress temporarily increased the support price and further exacerbated the variability in milk prices.

In 1989, Congressman Steve Gunderson (R - WI) challenged the dairy industry to achieve a national consensus and develop a modern, national dairy policy. In an extensive policy paper, he suggested that the dairy industry must develop goals and guidelines that would remove several artificial elements under Federal milk marketing orders, remove regional barriers and accommodate the changing impacts of international trade, technology, consumption and consumer preferences.

The stage was set in 1990 to improve the provisions of the 1985 Farm Bill. Most in agriculture felt that the 1985 Farm Bill had served agriculture well. In fact, the House and Senate Agriculture Committees reintroduced the 1985 Farm Bill as the markup vehicle and extended its provisions for five more years. Many of us felt that the Congress had accomplished its best work and should have declared victory at that point rather than risk eroding the market orientation that was achieved in 1985.

However, rather than forge together and work toward some form of national consensus, some in the dairy industry proposed increasing the support price and establishing a floor of $10.60/cwt. over the next five years. In addition, they proposed the implementation of production quotas to manage supply and a tax on dairy farmers to keep budget costs down. When the House dairy subcommittee

approved the proposals, Congressman Gunderson called the subcommittee action "legislating with our hearts, not our pencils."

Dairy processors and some dairy producer organizations supported alternative legislation which utilized the framework of the 1985 Farm Bill and provided for changes in both calculations of dairy surpluses and in the current levels at which price adjustments are triggered. In addition, it provided for shifts in the relative values of milkfat and nonfat solids to reflect changing demand.

Throughout this process, the Administration voiced its strong objections to the use of quotas and the establishment of an inflexible pricing policy. Instead, it proposed a continuation of the current policy with a wider range of price support adjustments and purchase trigger levels to give the Secretary flexibility to recognize market conditions when setting support prices.

Rather than compromise and provide the necessary parameters for a long-term industry policy direction, the dairy industry did not assume its responsibilities. The result was a dairy title that removed the price adjustment flexibility and market orientation of the 1985 legislation. With no dairy industry consensus, the Congress filled the vacuum by including provisions to further micromanage the Secretary of Agriculture and mandated that USDA study various alternative supply management approaches. Unfortunately, the Congress precluded the Department from considering some of the more palatable approaches and in its infinite wisdom mandated that a whole-herd buyout or price support reductions could not be analyzed under the study.

The legislation fundamentally failed to lay out the long-term policy direction that the industry had struggled with over the last ten years. Yet the blame for this failure lay directly at the feet of the industry itself.

1991 — THE YEAR OF CRISIS MANAGEMENT

The 1988 drought along with the world shortage of nonfat dry milk in 1989 resulted in tight supply conditions particularly in late 1989. This, in turn, resulted in record increases in raw milk prices that lasted through mid-1990. Farmers responded to those high prices by expanding dairy herds and increasing milk per cow. Not surprisingly, milk prices began to drop in late 1990.

Thus, in early 1991, it was also not surprising that some dairy producer groups would make their annual pilgrimage to Congress for relief. Proponents fueled the concern of low prices with emotionalism and spurious and unfounded charges that dairy processors and retailers were gouging consumers.

The Senate responded quickly without hearings. Offered as an amendment to the Dire Emergency Supplemental Appropriations Bill, the legislation mandated a $3.00 increase in Class I prices; mandated higher minimum solids for milks; reduced interest rate loans and payments to Grade B producers ; and mandated exports of heifers and dairy products.

While the legislation passed in the Senate, it was dropped in Conference because of opposition from processors, consumer groups, food retailers, social service agencies and school lunch administrators. Not to be deterred, alternative dairy proposals sprang up in both the House and Senate.

In what can only be described as a massive overreach, the House Agriculture Committee approved legislation increasing the price support by $2.50 to $12.60/cwt. and mandated production quotas through two-tier pricing. In fact, the price support level adopted by the Committee was $1.00 above what dairy producer interests had proposed to Congress.

In the interim, the Department initiated several actions to strengthen milk prices and sent clear and unmistakable signals to the dairy industry and the Congress that such legislative proposals would be vetoed by the President. In addition, they accelerated their study of supply management alternatives and determined that, of all alternatives studied, the current program was superior.

With the threat of a veto and no consensus of support, the legislation did not move. Robert H. Rumler, in a September article in HOLSTEIN WORLD, correctly described the situation as "crisis management by legislation." In analyzing the House legislation, Mr. Rumler noted, "H.R. 2837 has dealt a damaging blow to the opportunity for useful, constructive dairy legislation this year. Valuable time was wasted. And we seem to be about where we were this time in 1988, at least as far as policy and program is concerned."

At the same time, milk prices — the genesis of this legislative overreach — have risen steadily since May. Why? Partly because of the actions of USDA, but also because farmers responded to the price signals and culled herds, changed milk rations and made other management decisions that resulted in a decline in milk production. The marketplace does work and corrections did occur.

Still, not to be deterred, the Congress made one last gasp at dairy legislation, proposing a $11.10/cwt. price support level, a voluntary diversion program, continued inclusion of mandated nonfat solids and an assortment of bells and whistles. The reasoning? It would be better to pass something this year rather than have to deal with it all over again in an election year.

Irrespective of the results, the experience and the process has been an abject failure. Rather than communicating their concerns with dairy processors, dairy farm organizations have repeatedly gone to the Congress for solutions. Congress, in turn, has repeatedly told these organizations to only bring something to them if it has a consensus of industry support. And the Administration has been caught in the middle catching flak from all directions.

In the absence of any cohesive policy parameters, provisions are concocted to help bolster milk prices. For example, the proposal to increase nonfat solids in milks was dreamed up to drive up nonfat milk prices and appease California dairy farmer interests. Yet fluid milk processors are somehow expected to go along with this idea even though it increases their costs and they believe it will decrease sales. Certainly, if milk processors thought it would increase sales, they would be very uniwse to oppose such provisions. In addition to setting a terrible precedent of legislating food standards, the legislation would result in the increased production of its joint product — milkfat — which is in chronic surplus.

Let's give milk processors some credit. If fortified fluid milk is demanded by consumers, they will provide it. Yet it became clear that the processing industry had no control over this convoluted provision and were forced to fight against it vigorously during the policy debate.

In yet another example, provisions to establish a security trust for the benefit of dairy producers were included in almost every dairy legislative proposal since the 1990 Farm Bill. But Congress has yet

to hold any hearing or even have any substantive discussion with the dairy industry or the lending institutions on this issue. The implications of these provisions on dairy processors and the lending institutions are tremendous. However, without a massive campaign effort, the provisions most certainly would have become the law of the land.

Dairy farm organizations were ridiculed in the press for their aggressive schemes which brought on the wrath of the Administration, consumer groups and the cattlemen, among others. And for what? Many have suggested that it was for the purpose of making a political issue and not sound industry policy.

Indeed, much of the dairy industry is leading with its chin. And as long as we proceed with politics as usual, the Congress, the Administration, consumer groups, cattlemen and others will be quite obliged to step up and deliver a right cross.

WHERE DO WE GO FROM HERE?

For those of us familiar with the dairy industry, it is not surprising that it has been extremely difficult to achieve a general consensus on dairy policy. Structurally, the dairy industry is diverse. A milk deficit area like the Southeast faces different problems than a surplus area like the Upper Midwest. California and much of the Southwest have been transformed from a regional supplier of fluid milk to a dominant manufacturer of dairy products that directly compete with other regions of the country. These shifts will likely continue, further exacerbating the diversity of interests among dairy farmers and processors.

Dairy farmers, themselves, are diverse. The costs of production vary greatly from region to region and within regions. In the September 1991 issue of DAIRY TODAY it was reported that the average cost of production in the state of Vermont, alone, ranges from $10 to $17/cwt. Clearly, that group of farmers on the top half of that cost curve will not remain economically viable under any policy scenario over the long run.

Achieving a consensus on public policy has always been a difficult process. Legislating public policy has been compared to watching sausage being made. Having grown up on a farm whose family made their own sausage and also having participated in the legislative process from three different vantage points, I would suggest that the process of making sausage is no less repugnant, clearly more expedient and the final product exceedingly superior.

Thus, it would be easy to surmise that prospects for any tangible improvements in dairy policy are a long way off. And they will be unless the dairy leaders of this country are willing to step up and become more pragmatic and provide the leadership necessary to reach a consensus of these policy issues.

Again quoting Bob Rumler, "Qualities of statesmanship must prevail to a far greater extent in those who espouse dairy leadership, in the industry as well as elsewhere in the process."

What that means is that dairy farmers and dairy processors, cooperatives and proprietary firms, must each be willing to talk and work together before rushing off to Washington. It means that we must cease and desist from this internal warfare that has permeated the industry.

Dairy processors have been and are willing to work with dairy farmers. We have a relationship that does not allow either of us the luxury of ignoring each other's interests. In order for dairy farmers to be reliable suppliers they must have a reasonable price to stay in business. Likewise, dairy processors must also earn a reasonable return on their labor and investment, if they are to survive.

The challenges that I mentioned earlier are enormous. Let me attempt to address some of the most controversial issues that the industry will face over the next few years.

INTERNATIONAL TRADE REFORM

After more than five years of negotiations, it now appears likely that the Uruguay Round of multilateral trade negotiations will break the stalemate and reach a framework agreement on agriculture and allow the remaining trade sectors to also complete their negotiations.

This will be a tremendous breakthrough for U.S. agriculture and will begin the process of gradually reducing trade-distorting domestic and export subsidies and the substitution of tariffs for non-tariff border barriers. In addition, the agreement will allow selected international scientific organizations to harmonize sanitary, phyto-sanitary standards and food safety regulations and resolve disputes within the GATT.

The negotiations will now focus on which domestic and export subsidies will be subject to cuts and which will be exempt. For those that will be reduced, the key issues will revolve on agreeing on the base year for calculating the reductions, the time period over which the reductions would be implemented and whether the reductions are based on volumes of trade affected or in terms of budgetary expenditures. Likewise, the process of tariffication will involve negotiations on the methods by which tariffs will be progressively lowered and the structuring of adequate safeguards.

An outline or framework of an agricultural agreement could be reached by the end of the year and a vote before the Congress on the total trade package could occur before the November 1992 elections. It will be approved by the Congress if only because the alternative of impending trade wars are unsustainable. Much is at stake as agriculture is but one of the several major areas that encompass intellectual property rights, services, market access, textiles and clothing, investment measures, among others.

The U.S. government is struggling with a massive budget deficit. The European Community has been forced to consider reforms of its Common Agricultural Policy as its budget increased 30 percent from last year to $40 billion. At the same time, the Eastern European countries and now the Soviet Union are making the difficult transition from Communist government controlled states to democracy and free market economies. Developing countries need to generate income and participate in international trade. The political and economic realities suggest that protectionism must be dismantled and trade liberalized.

More importantly, a successful Uruguay Round agreement will lay the groundwork for completion of a North American Free Trade Agreement with Mexico and Canada, possibly in 1993. The previous U.S.-Canada Free Trade Agreement essentially deferred dairy trade issues to the GATT negotiations. With a successful GATT round agreement, it can be expected that reductions of trade barriers on dairy products with Canada could and should be included in a NAFTA.

The U.S. dairy industry must be prepared to adopt policies that will conform with the GATT rules and allow participation in international markets. We are becoming part of a global economy whether we like it or not. Moreover, by "leveling the playing field" a successful Uruguay Round will have significant impacts on several other major issues that will affect the dairy industry: price volatility, reform of the Federal Milk Marketing Orders and M-W price series, and supply management.

PRICE VOLATILITY

Both producers and processors, particularly over the last 2½ years, have expressed concern over the volatility exhibited in commodity prices. The argument has been made by some that the ratcheting down of the dairy support price over the last five years has been responsible for this volatility. However, an objective evaluation reveals that these rapid price movements have been the result of several obvious factors that are independent of the level of dairy price support.

First, the implementation of the whole herd buyout resulted in a $0.93/cwt. increase between March and November 1986, which was then the largest seasonal price increase on record. Second, the severe drought of 1988 pushed milk prices up $0.94/cwt. between April and December of that year. Third, as I mentioned earlier, the worldwide shortage of nonfat dry milk coupled with a wet spring resulted in tight supply conditions in 1989. Finally, strong demand for cheese during much of that 2½ year period helped keep milk prices at levels well above the support level.

U.S. agriculture, including the dairy industry, no longer can operate independent of the rest of the world. The recent movement toward market domination of the previous controlled economies of Eastern Europe and the Soviet Union and the economic strengthening of Europe next year when it opens its borders and takes on a U.S. style economy will have a direct impact on the dairy industry.

Yet the argument continues to be made by some that higher price supports are needed to provide price "stability" and a reasonable degree of price assurance to producers. We need to remember that the primary objectives of the dairy price support program are to assure an adequate supply of milk and act as a safety net to farmers. The program is designed to undergird the market and keep dairy products as competitive as possible. It is not designed to establish market prices nor necessarily ensure that they will not experience volatility.

Higher support prices will not insulate the dairy industry from the price impacts of policies or economies of other nations or changing weather conditions. Past efforts to implement supply management alternatives have exacerbated the volatility of prices rather then stabilizing them.

In my view, price volatility will continue to be a fact of life for the dairy industry. If one agrees with that hypothesis, the obvious question becomes how can producers or processors survive the price uncertainty? One way is to look for an alternative broader based pricing mechanism such as a futures market for dairy products. The Milk Industry Foundation, the National Cheese Institute, and the International Ice Cream Association are working with the Coffee, Sugar & Cocoa Exchange in examining the feasibility of developing a futures contract for dairy products.

Futures contracts are contracts for delivery of a specified volume of a standardized commodity at some future date. A futures contract would provide opportunities for hedging by taking a futures market position as a temporary substitute for a position in the cash market for the commodity. For

example, a cheese manufacturer, anticipating the sale of cheese in 6 months, could sell (short) futures contracts for delivery over the same time period at a specified price. Six months later, if the cheese price is below the price locked in earlier, the manufacturer could simply deliver the contract. However, since futures contracts are seldom used for delivery, the manufacturer would likely sell the cheese at the lower price and offset the futures contract sale with a purchase contract. Adding the profit from the futures market transaction to the lower cash market price would yield about the same price that was locked in the original contract.

Conversely, if the futures contract price moved above the locked in price, his offsetting purchase contract would result in a loss. However, since the cash market price would be higher, the net price should equal the original locked in price.

A futures market would be effective in protecting manufacturers' inventory positions. Product users could benefit by fixing ingredient costs. Producers could benefit because their cooperative or plants they deal with could lock in a price for cheese and forward contract for milk at a price consistent with the futures price.

REFORM OF THE FEDERAL MILK MARKETING ORDERS AND M-W PRICE SERIES

In addition to facing the challenge of price volatility, the dairy industry must come to terms and make some hard decisions in reforming Federal Milk Marketing Orders and developing a replacement for the Minnesota-Wisconsin price series.

Senator Richard Lugar (R-IN), in a recent well-publicized letter to Secretary Madigan challenged the Department to boldly propose the removal of many of the distortions in Federal Milk Marketing Orders that, in his view, have played a significant role in creating the inefficiencies and long-term incentives for surplus production.

Senator Lugar states that marketing orders are part of the problem and questions whether they are justified at all in today's world. He notes that the structure of the current marketing orders discourages the use of various technologies such as reverse osmosis. Reconstituted milk is discouraged because of the continued use of down allocations and compensatory payments. Paying premiums for higher butterfat content is counterintuitive when it is in chronic surplus. He openly questioned whether Class I differentials or classified pricing are even needed to appropriately price milk and dairy products.

Responding to the national hearings held last fall on pricing under federal milk marketing orders, the Department recently announced that it is recommending that all milk marketing orders be amended to adopt the three-class pricing system prevalent in most orders. In addition, they recognized the arguments made for reconsidering the extra charge imposed on reconstituted milk and recommended that concentrated and nonfat dry milk shipped between markets and reconstituted for Class I be treated similarly to transfers of whole milk.

To his credit, Secretary Madigan went beyond this first step and reopened the hearings and posed many of the hard questions Senator Lugar and others have raised. With a successful GATT round, Federal Milk Marketing Orders must be looked at from the context of whether the structured

classified pricing system currently in place makes sense or will even be in conformance with international obligations.

Like it or not, the current structure of Federal Milk Marketing Orders must and will undergo significant reform. It is up to the entire dairy industry to decide whether they want to play a constructive role in shaping these changes or remain divided and let others determine their outcome.

Equally important is the need to reform the current Minnesota-Wisconsin price series. The Department has stated the M-W price series will not be viable from a statistical standpoint beyond mid-1992. The Department was to reveal the results of its report that analyzed several alternatives on October 1. Unfortunately, that report has been put on hold. Valuable time has been wasted. The industry needs to evaluate the alternatives and provide input to the Department.

Senator Lugar also noted that, while establishment of a new M-W price series is distinct from milk marketing order reform, they are, in reality, inseparable. Moreover, he noted that because dairy markets tend to be thin with few participants and imperfect price discovery, producers have little opportunity to engage in forward pricing. That inability, in his view, is because of the lack of a futures market for dairy products. He further suggests that mandating minimum price relationships between milk put to various uses has discouraged the development of futures contracts.

Clearly, these issues have lingered much too long. Without squarely addressing them through the regulatory process, we can continue to expect these issues will be put before the Congress to settle disagreements. The experience of mandating increases in Class I differentials in the 1985 Farm Bill and prohibiting states from having a higher "make allowance" than under the Federal program has been counterproductive and only further fueled animosity among various regions.

The Department needs to continue to take the initiative and propose pragmatic and sensible reforms. The dairy industry needs to coalesce and develop a framework of support to implement the changes.

SUPPLY MANAGEMENT

In addition to relearning the lesson of instituting above market-clearing support prices, many in the dairy industry would be well-advised to rethink their views on supply management. Those who have strongly advocated supply management have pushed for permanent bases and quotas. The Administration, Congress, many in the dairy industry and agriculture in general have rejected this approach. This was reconfirmed again this year. Indeed, the use of a voluntary diversion program and a whole herd buyout were reluctantly implemented because there was no consensus of support for mandated supply controls. Each of those programs have deficiencies and have proved to be disruptive to the industry.

The use of quotas or bases or a two-tier pricing system is predicated on artificially restraining production and setting a higher price. They would impose inefficiencies in the industry and would drive milk prices to processors and to consumers higher then they would otherwise be.

Any form of mandatory supply controls, whether in the form of quotas or two-tier pricing would be a significant step backwards for the dairy industry. Two-tier pricing, for instance, would be mimicking exactly what we are trying to convince the European Community to abolish in the GATT

negotiations. Indeed, such a program will probably not comply with the requirements of a successful Uruguay Round.

The most recent initiative to raise the support price and implement a milk diversion provision will only result in having the most efficient producers responding to the higher supports and bury us with products. That, in turn, will result in calls for tightening the diversion program to reduce the chronic surplus. The effects of larger reductions (and assessments on nonparticipants) coupled with reduced consumer demand will result in reduced producer returns and will create political pressure to further increase support prices to offset the decline.

Future dairy policy will not be able to accommodate all high cost producers any more than the marketplace will allow high cost manufacturers to stay in business. And quotas will not be the salvation for preventing farmers from going out of business. All one has to do is look across the border at the Canadian experience. The August 1991 issue of DAIRY TODAY contained a special report on various global views on dairy quotas. The report noted that between 1966 and 1989, the number of dairy farms in the province of Ontario decreased 69 percent from 30,773 to 9,408. In comparison, in the state of Michigan the number of dairy farms declined 67 percent from 19,946 to 6,500. Similarly, in Wisconsin the number of dairy farms declined 59 percent from 82,000 to 34,000 over the same time period.

However, one way to provide a transition to that group of producers is to provide for direct payments to compensate for their inability to produce at market-clearing prices. This is consistent with the approach in place under the wheat, feedgrain, cotton and rice programs. It is also the approach under consideration by the European Community to reform their Common Agricultural Policy.

Some have also suggested that a limited whole herd buyout should be an alternative that could be a viable option to provide a transition for inefficient farmers to exit the industry. If the volume is limited and timing spread out, even the cattlemen should not be opposed to this option.

We have to realize that major breakthroughs in technology will continue to reduce the cost of producing milk. Areas such as animal nutrition, genetics, disease control and improved management practices will result in increased efficiencies for dairy producers. We cannot stop this technology nor should we. U.S. dairy farmers are competitive and most want this technology and will adopt it.

Moreover, no matter what we attempt to do through supply management, we will never overcome economic forces. And the economic forces now facing us are global not just domestic.

More importantly, I believe that most farmers want to be free to make management decisions on herd size and volume of milk they produce. Clearly, the innovative and productive producers want no part of quotas and their attendant costs. Many dairy farmers are beginning to openly question the dairy policy of this country.

One poignant example is a recent letter published in the Wall Street Journal from Hannah B. Lapp, a dairy farmer in Cassadaga, New York. In it she notes that dairying is simply a business like any other and that most dairy farmers are like entrepreneurs everywhere, particularly when there are times when it is difficult to make net profit from their investment. She states that once dairy farmers started depending on government subsidies instead of their own resources they developed a dependency hard to break.

Comparing dairy farmers with grape growers, she notes that faced with a flooded market, the grape growers "will review their marketing policies and then decide how many vineyards they can afford to maintain. Dairymen faced with a negative market will turn to the one marketplace with its doors wide open — that of politics." Elaborating further, she stated, "Dairy farmers are fond of noting that all they are asking for is a 'fair' price for their milk. Businessmen know that the only fair price for their product is the one that convinces their customers to buy."

"Personally, I feel that milk is one of the best bargains in food. I can try to convince our customers of this by forcing our price onto them by law. Or I can choose the means employed by the most successful of American industries: product research and development, advertising and offering competitive prices."

She acknowledges that many dairymen are too mistrustful of the industry even to ask the government to withdraw its intervention, noting that some say solve our problems with supply management or a system of controlling milk production with quota allotments while others say just set prices higher.

Finally, she states, "But there's another voice arising out of the clamor — one generally discounted in the halls of Washington and not thrilling enough to make the news. It's the voice of dairymen who want government out of milk marketing, out with every bit of its complicated price supports, market orders, and supply-control schemes. We're tired of scheming against our customers because successful business don't do that. We've observed the prosperity of the free sectors of agriculture and we want to be among them. We just want to be allowed to get down to business — the business of producing and selling milk."

CONCLUSION

In my view, the U.S. dairy leaders have received a clarion call from farmers, processors, consumers, the Administration, and Congress that business as usual is not acceptable. More important, I am concerned that the dairy industry, as an industry, is vulnerable and ill-prepared to effectively address the challenges that lay before it. The world is changing at a dramatic pace. International trade reform, for all intents and purposes, is an economic and political necessity. U.S. dairy programs and policies will have to conform with international obligations. The role and responsibilities of the Federal government are going to change and, in terms of budgetary support, likely diminish over time. In the end, economic forces will always prevail and price volatility will not be stabilized by high price supports, quotas and bases or restrictive milk marketing orders.

The entire dairy industry must come together and rationally discuss our differences and concerns and make an effort to form a consensus on long-term dairy policy. The status quo is no longer acceptable. Everyone must step up and show stewardship in meeting the responsibilities of providing leadership in the industry. We can do no less.

Dr. Donald Paarlberg, a former alumnus of this great institution and one of the most cogent thinkers in agricultural policy, coherently addressed the issues agriculture would face in his 1980 book **FARM AND FOOD POLICY: ISSUES OF THE 1980'S**. In it he noted that agriculture has lost its uniqueness and has become less a way of life and more a business like other businesses. As a result, it has increasingly had to give up its claim to special treatment.

He identified the issues of public policy that would affect American agriculture in the 1980's: commodity programs; price control; the consumer movement; the environmental movement; domestic food programs; occupational safety and health; the use of land, water and energy; the decline of the family farm; the rise of agribusiness; the role of the Department of Agriculture; and international trade policy.

He noted that farmers and non-farmers have more in common than they have in opposition. Confrontation has often been the strategy employed by both groups. However, he pointed out that farmers, with their declining numbers and eroding political power, can only lose by such strategy.

He concluded with a powerful message. "For a hundred years farmers had the policy initiative. They called the signals, moved the ball, and put points on the scoreboard. But sometime during the past fifteen years there was a turnover. Like it or not, farmers must now play defense. There is one thing worse than losing the ball; that is to lose the ball and think you still have it."

The dairy industry is indeed precariously close to losing the ball. The choice is ours. Thank you!