ESO 767

College of Agriculture and Home Economics
THE OHIO STATE UNIVERSITY

MILKMEN OF OHIO, INC.:

A Case Study

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MILKMEN OF OHIO, INC.: A CASE STUDY

Today was the last day Henry Morris would have to get up at 5:00 a.m. to milk his cows. He would probably still awaken at five, after 42 years it would be hard to break that habit. But sometime this afternoon the auctioneer would bring down his gavel as he hollered, "Sold!" and Henry would be out of the dairy business.

Dairying had been a struggle everyone of those 42 years. Henry bought three cows soon after he and Emma were married. One of the cows died shortly after he brought it home. One of the other cows was nervous. She would kick the milk pail almost every time Henry tried to milk her. The cats would scurry to lick up the warm, foamy milk but it was not very profitable for Henry. Finally the nervous cow trampled a teat and ended up with three producing quarters. Henry sold her soon after that. The third cow started his herd. He named her Mabel, after his mother-in-law. She was a good milk producer and each spring presented Henry with a healthy calf, usually a heifer. Henry kept the heifers and upgraded his herd through selective breeding. Henry quit using bulls about ten years ago when a cranky herdbull charged him, breaking Henry's leg. Right after getting a cast and crutches, Henry sold the bull and switched to artificial insemination. A. I. gave him the opportunity to greatly improve his herd by using semen from outstanding bulls he could never afford to own.

Henry always believed in feeding his herd the best ration he could put together using feed he raised on the farm. In recent years he included soybean meal and brewers grains in the ration. His cows responded by producing a herd average of 22,000 lbs. of milk per head per year with a butterfat content of 3.9 percent, or more than 850 lbs.

Henry also made good use of the local veterinarian in managing the health of his herd. The vet made monthly calls on Henry's herd to make reproductive checks to reduce the calving interval. Calfhood vaccination, red nose (IBR) and yearly lepto vaccinations were also part of the health program.

DHIA (Dairy Herd Improvement Association) records have given Henry the information he needed to successfully manage the herd. It was Henry's records that told him it was time to get out of the dairy business. High production costs and low milk volume because of his small herd size simply would not allow Henry to make what he considered to be adequate income. Milk prices had increased but not enough to overcome increases in production costs. The Milkmen of Ohio Cooperative people had tried to get Henry to join with the promise of higher returns if everyone worked together. But they wanted to charge a fee based on his milk production. He just could not see returns that would offset the expense. Besides, everyone in the Ohio Valley Milk Marketing Area got the same price whether a member of the co-op or not. On the last visit the representative from Milkmen of Ohio said that they might not be able to haul his milk for him in the future if he did not join.

All in all, it seemed like a good time to sell out. Dairy animals had been selling at a high price lately. Maybe he and Emma could use the money from selling the herd to spend the winters in Florida. These thoughts went through Henry's mind as he slipped the automatic milkers on the cows, patted them affectionately and said goodbye quietly and sadly.

Robert Johnson, Executive Vice President of Milkmen of Ohio, Inc. (commonly called MOO, Inc. by others in the dairy industry) entered the conference room at 7:55 a.m. He noted, with satisfaction, the three vice presidents he had asked to attend the meeting were already sitting around the conference room table arranging papers and glancing at notes.

"Bill, will you have Doris bring us some coffee as soon as she can."

Bill Murphy was vice president in charge of Member Relations. He was responsible for all matters involving direct contact with the dairymen making up the membership of MOO, Inc. Bill acknowledged the request and left the room briefly to ask for the coffee.

Tom Kinhoffer and Dave Jefferson both greeted Johnson with a nod of the head and a brief "Good morning, Bob."

Tom was vice president of Marketing Services. He was responsible for the marketing of the milk produced by the co-op's members. His duties included overseeing the logistics, some processing, pricing and distributing the milk.

Dave Jefferson spent about half of his time in his Washington, D.C. office and half in the Columbus, Ohio headquarters as vice president of Public Relations. He made contacts and maintained relationships with legislators and governmental agency employees in the national capital and in the Ohio capital city. He also was responsible for all news released to the media and the current, modest advertising campaign.

As soon as Bill Murphy returned to his chair, Bob Johnson began. "Thank you for getting together on such short notice. I thought we should talk about some of the problems we are facing and some things we foresee. We may be in for some rough times and the sooner we can put together a plan of action the sooner we can implement it.

I've asked each of you to prepare a short report on the major problems in your area of responsiblity. I think we'll just go around the table. Then we'll discuss the problems and try to come up with some solutions.

Bill, would you lead off?"

"Okay, Bob." The vice president of Member Relations wet his lips and began. "We just completed a quick telephone survey of our membership and I'm sorry to say our members aren't very happy with us. Only 60 percent think the co-op is doing a better job marketing their milk than they could do on their own. Twelve percent think they may drop out of the co-op within the next year. Almost 80 percent say they would like to be part of a larger co-op with greater marketing strength. Only 42 percent say they would support the current management team if given a choice. The majority..."

Bob Johnson cut him off, "Those are enough statistics, Bill. What's wrong? Why are our dairymen so upset?"

"Well, a couple of things. First, feed costs are starting to take off. That is putting a squeeze on profits. Then, our dairymen have been reading in farm publications that the dairy price support program may be in trouble in Washington. Here is an article I clipped last night. Thought you might be interested."

Johnson took the clipping from him (see Exhibit 1). After scanning it he handed it to Dave Jefferson.

When he saw he had Bob Johnson's attention again, Bill continued, "I think what's bothering dairymen in our area most is the fact that we have not been able to bargain for a premium for them. They hear about dairymen in other parts of the country receiving super pool premiums of 20 cents to 40 cents per hundred weight (cwt). I think if they could vote today our members would vote to merge with Milk Marketing, Inc. ..."

/Milk Marketing, Inc. is one of four regional milk marketing cooperatives, each of which serves a large geographic area. Their size (Milk Marketing, Inc. was formed from the merger of more than 30 independent cooperatives with combined membership of about 50,000 producers in more than a dozen states) and coverage gives regional cooperatives considerable bargaining strength when dealing with milk handlers within the regions./

Tom Kinhoffer broke in with an angry tone of voice, "You know we've always maintained that we know what is best for our members. We grew up here. We know most of our members personally. We know their needs and can serve them better than some huge impersonal organization. You just need to do a better job convincing them of that." Tom bristled a little as he finished his reply to Bill Murphy.

Bob Johnson cleared his throat, "Well, Tom, as long as you have the floor, why don't you tell us about other problems in your area."

Tom's face reddened and he visibly struggled to control his temper. He began to calm as he focused on his presentation.

"Our marketing problems boil down to two. Big Saver, the major handler in our area, and our biggest competitor, the regional co-op. In the last ten years or so, Big Saver has grown from a small grocery store chain to a large chain spread over three states. They do all of their own distributing and a couple of years ago built a milk processing and distributing plant to serve all of their stores. Until last year we supplied all of the milk processed at Big Saver's plant.

Then they got a new dairy products merchandising manager. He refused to sign our full supply agreement. He started buying part of his milk from the regional co-op. Although he has to pay them the same price as un under the milk market order for our area (see Exhibit 2), he claims with their fleet of new trucks they can service him better. I think he's just trying to play us against them.

Well, because of that we are not able to sell all of our member's milk at Class I fluid price. So our producer's are not getting as much for their milk as they might.

What the Big Saver fellow does not realize is that the regional co-op is trying to gobble us up. We're one of the holes in their big region. What they are doing is shipping milk in here from other areas in their region so they can reduce supply available to other handlers and force higher super pool premiums. Meanwhile, they are getting some of our major customer's business, hoping to force us to merge with them. Then they'll divert milk from our area some place else or to one of their butter/powder plants and put the squeeze on Big Saver. Then the dairy manager at Big Saver will have to pay 30 to 40 cents premium like other handlers in the region."

"Have you tried to explain all this to Big Saver?" Bob Johnson broke in.

"Yes, but he doesn't seem to care what might happen down the road. He says he'll worry about that when the time comes. Another problem we have with the regional co-op is in testifying before the Market Order Administrator. We try to show that the price of milk as established by the milk marketing order should accurately reflect the rising cost of production. But the regional co-op doesn't always back us up in its testimony. They feel their super pool premium helps their members when the market order price doesn't keep ahead of costs like it should. What they really want is to get the Administrator to expand the geographical area covered by the order. You see, if they can get the area big enough it would be too costly for handlers in the region to ship milk in from some other market order area where the Class I price is not as high." Tom paused to see if the other exectuives fully understood.

"I don't know that there is much more we can do to convince the regional co-op or the market administrator to do a better job keeping up with the cost of producing milk. But one thing we could do is build a butter/powder plant. When we couldn't sell all the milk our member's produced we could process the surplus in our plant. We could then sell the butter and non-fat dried milk. We could make more money for our dairymen that way than by selling the surplus milk like we're doing now."

Bob Johnson responded, "We've talked about a butter/powder plant before. With the new technology coming on-stream maybe the economics would be better now. Do you think the government's going to keep buying butter and dried milk, Dave? I just read this article by Bob Jacobson at Ohio State. He doesn't seem to think so." (see Exhibit 3)

Dave Jefferson drew on his pipe and studied the glowing embers as he blew the smoke slowly into a fragrant cloud which drifted about the room. He laid his pipe carefully in the ash tray before he answered.

"Until the new administration takes office and starts filling administrative posts we really won't have a good idea of what is going to happen. We had a similar turn of events back in 1968. The democrats were turned out and Nixon became President. Then, as now, the avowed intent of the new administration was to move away from policies which meant large subsidies to agriculture. At least this time we had the good sense to hedge our bets.

Historically, dairymen have supported Democrats. They contributed heavily to Hubert Humphrey's campaign in 1968. When Nixon won, the dairymen had no friends in the White House. This time we contributed to both sides from our PACs (political action committees). We even identified some strong Republican Congressional candidates early and helped them before it became evident they were going to win.

Another thing we have in our favor is we learned to work together over the years. In 1969, we were in trouble. Only by intense effort were we able to convince the administration to keep price supports up. In fact, some of our sister organizations were a little over zealous in their efforts. It was alleged Associated Milk Producer, Inc.; Mid-American Dairies; and Dairymen, Inc. contributed more than $600,000 to various Nixon re-election campaign funds. The ensuing milk price support increase was worth about $300 million to dairymen in 1971. A pretty good investment, if they indeed made such an investment."

Dave paused to pick up his pipe. It took him three matches to ignite the tightly packed tobacco. A dense, rising cloud of smoke announced his success. He emphasized his next statement by pointing to Bob Johnson with the stem of his pipe. "We have three major goals in this year's effort in Washington. We must convince the administration and the Congress, if necessary, to support the price of milk at or above 80 percent of parity. We need to reduce import quotas on dairy products, especially cheese. And we need to make sure the school lunch milk program continues at the present level.

To accomplish these things we need to bring pressure to bear on the new administration. We will take every opportunity to educate legislators at the national and state levels. We are going to need to call on our members to give us the solid grassroots support that will make this effort a success."

Dave paused to loosen the cooling tobacco ash in his pipe and tapped it carefully into the ashtray. He opened his tobacco pouch and started to recharge the pipe with fresh tobacco as he concluded his remarks. "It was brought to my attention last weekend that Milk Marketing, Inc. has sent a mailing to our members. The letter compared prices received by our members to prices received by their members. They also compared profitability. The letter also listed all the benefits received by Milk Marketing, Inc. members such as the opportunity to purchase life insurance and liability insurance at reduced rates. They also have a contest for members in which ten dairymen and their wives will receive a free trip to Florida in January.

A person would have to be blind not to see what they are up to. What bothers me most is some of that information could only have been given out by someone in our organization. I think someone fairly high up in our organization would like to engineer a merger."

"That's a pretty strong statement, Dave!" said Robert Johnson glancing at each of the three men seated around the table. Bill Murphy was intently writing on a legal tablet before him. Tom Kinhoffer looked into his eyes but Bob could see his face reddened slightly. Dave Johnson returned a cool look as he used his thumb to push tobacco into his pipe with a great deal of force. "If it's true, we'll assume it's not someone in this room," Bob said trying to reduce the tension.

Johnson continued, "I see each of you has taken some notes. Let's organize the problems and issues. We'll try to isolate those which are most serious. Before we leave here today I want us to have a plan of action we can begin to implement immediately."

Appendix A

Milk Production and Marketing in the United States

Because of its product characteristics and the incongruity between production and consumption, milk is one of the most difficult agricultural products to market. Milk production tends to decline in autumn and winter months but rises in late spring and early summer. Because of its nutritional value milk is considered to be one of the basic foodstuffs. Fluid milk consumption tends to be stable on a yearly basis, with slight increases in consumer demand in winter months and slight declines in summer months. On a weekly basis, consumer demand is quite variable. Consumer purchases of fluid milk tend to be high on weekends and low during the week.

Under free market conditions, milk marketing was chaotic. Supply build up in the spring resulted in low prices and income to dairymen. Producers responded by leaving the industry or reducing milk production which caused shortages and periods of extremely high prices to consumers. Maintaining quality of the highly perishable product over time and distance also has been a major issue over the years.

Government intervention in the dairy industry came in the form of three pieces of legislation, the Capper-Volstead Act, The Agricultural Agreement Act, and the Agricultural Act of 1949. The Capper-Volstead Act in 1922 gave agricultural producers such as dairy farmers the opportunity to form cooperatives exempt from prosecution under anti-trust legislation. Mank milk marketing cooperatives have been established by milk producers. These cooperatives perform marketing functions for their members such as transportation, packaging, distribution and manufacturing. The trend in recent years has been for local milk marketing cooperatives to merge into large cooperative federations. The federations found they could improve their bargaining positions by merging into regional cooperatives. Four such regional cooperatives have been formed in the central United States. The largest, Associated Milk Producers, Inc. (AMPI), is the end result of many mergers involving 111 cooperatives in nine states. Over 30,000 dairymen make up the membership of AMPI.

The 1937 Agricultural Agreement Act authorized the Secretary of Agriculture to help stabilize market conditions for certain agricultural commodities, milk included, by issuing Federal Market orders and agreements. Milk Marketing Orders are issued by market administrators working in the Dairy Division of the Agricultural Marketing Service, an administrative agency part of the United States Department of Agriculture. A market order for a certain milk marketing area establishes the minimum price to be paid by handlers (milk handlers are private firms which process, package, and distribute milk and dairy products) to dairy farmers. The minimum price is established by the market administrator based on cost of milk production and estimates of the demand for milk. Dairy producers, usually through milk marketing cooperatives, and handlers are given opportunities to present arguments for or against price decisions and can force an appeal all the way to the Secretary of Agriculture. The objectives of federal milk market orders are to assure an adequate supply of quality milk and to establish a minimum price for fluid milk to correct price instabilities that would give producers false production signals. Accordingly, all producers and all milk handlers in an area are included under the provisions of an order.

The Agricultural Act of 1949 established the milk price support program. The Act requires the USDA to support the price of milk at between 75 percent and ninety percent of parity. This is accomplished by Commodity Credit Corporation purchases of butter, non-fat dry milk, and cheese. The support program establishes a minimum price for manufacturing grade milk, which then supports the price for fluid milk since milk market order fluid milk price is based, in part, on the price of manufacturing grade milk.

EXHIBIT 1.

Washington Food Report
October 18, 1980

Question of the Week

What would bring PepsiCo, Inc.'s Pizza Hut fast food chain, Common Cause, the Sara Lee division of Consolidated Foods Corporation, and the Community Nutrition Institute together? For the answer see Page 4.

Answer to This Week's Question

Dairy price supports. "Their interests are the same as ours" when it comes to dairy prices, W. Peyton George, an attorney for PepsiCo, Inc.'s Pizza Hut unit, said, in referring to a meeting he had recently with 2 representatives of Common Cause, the grass-roots lobbying organization founded by John Gardner. The meeting, according to The Wall Street Journal (Oct. 16), suggested "an unusual alliance" to "get Congress next year to apply some kind of brake on the ever-rising prices of milk, butter and cheese."

The government's dairy price program is "inflationary" and "should be reassessed," a spokesman for the Sara Lee unit of Consolidated Foods was quoted. And Ellen Haas of the Washington-based, consumer-oriented Community Nutrition Institute predicted there would be "some new players" in an escalating controversy.

The 6% increase in the dairy products support level that went into effect Oct. 1 will cost Pizza Hut an additional $3.6 million a year for cheese, predicted Mr. George. Common Cause was said to be concerned that the price-support increase will boost dairy profits and add as much as $100 million -- in fiscal year 1981 -- to the cost of the government's dairy program -- which added up to a record $1.3 billion in the fiscal year ended Sept. 30. Authorizing legislation for the current program expires the end of next September -- so it's an issue that will have to be considered by the new Congress. "It will be one tough fight," said Maureen Shea, the Common Cause representative who met with Pizza Hut's Mr. George.

Among the politically-potent dairy and farm organizations reportedly intent on preserving the government dairy supports program is the National Milk Producers Federation, whose president, Patrick Healy, says it is drafting some legislative proposals of its own in hopes of saving the program from getting changed. But consumer groups feel that the federation's proposals likely will be "inadequate," noted The Journal.

EXHIBIT 2.

UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

DAIRY DIVISION

OHIO VALLEY MILK MARKETING AREA

Federal Order No. 33

EA CODE: 614
LEPHONE: 891-1851

5950 SHARON WOODS BLVD.
P.O. BOX 29226
COLUMBUS, OHIO 43229

COMPUTATION OF UNIFORM PRICE

Based on 53 Handler Reports

SEPTEMBER 1980

	PERCENT	MILK POUNDS	3.5% PRICE PER CWT.	TOTAL VALUE
Class I Producer Milk	64.0	154,339,318	$13.43	$20,727,770.41
Class II Producer Milk	8.8	21,108,228	12.17	2,568,871.35
Class III Producer Milk	27.2	65,651,657	12.07	7,924,155.00
TOTAL PRODUCER MILK	100.0	241,099,203		$31,220,796.76
Other Source § 1033.60(g) Class I				-0-
TOTAL MILK IN POOL		241,099,203		$31,220,796.76
Value of Overage				31,171.37
Value of Inventory Adjustment				411.27
Value of Other Source				-0-
Value of Class I Location Differentials				(3,566.59)
Value of Audit Adjustments				(493.05)
TOTAL POOL VALUE				$31,248,319.76
Value of Producer Location Differentials				38,482.98
½ Unobligated Balance in Producer Settlement Fund				100,455.01
POOL MILK AND ADJUSTED VALUE		241,099,203	$13.018400	$31,387,257.75
Producer Settlement Fund Reserve			(0.048400)	
WEIGHTED AVERAGE PRICE		241,099,203	$12.97	$31,387,257.75
Other Source § 1033.60(g) Lbs. x Wt. Avg. Price			$12.97	-0-
Seasonal Production Incentive Adjustment		241,099,203	0.27	655,122.42
PRODUCER MILK AND ADJUSTED VALUE		241,099,203	$13.290123	$32,042,380.17
Producer Settlement Fund Reserve			(0.040123)	(96,735.77)
UNIFORM PRICE FOR 3.5% MILK		241,099,203	$13.25	$31,945,644.40

Uniform Price Subject to Location Differentials

PRODUCER BUTTERFAT DIFFERENTIAL . . . . $ .167

AVERAGE PRODUCER BUTTERFAT TEST . . . 3.55%

	PRODUCER B.F. LBS.	PERCENT
Class I	3,824,429	44.7
Class II	886,194	10.4
Class III	3,844,598	44.9
TOTAL	8,555,221	100.0

/s/ R. J. QUAINTANCE
MARKET ADMINISTRATOR

(Minus figures in parentheses)

RELEASED: October 10, 1980

EXHIBIT 3.

SOCIO-ECONOMIC INFORMATION
September, 1980

Dairy: Production And Price Support

Jacobson

Robert E. Jacobson
Professor, Agricultural Economics, OSU

The surge in milk production that started in mid-1979 in the United States has continued unabated through the first half of 1980. The January through June, 1980 period recorded an increase of 3.8 percent in milk production over the same period in 1979. At this rate, 1980 production will likely exceed 1979 production of 123.6 billion pounds by around 4 billion pounds and reflect an all-time high in annual milk production.

Much of the increased supply of milk is coming from the key dairy states, with No. 1 Wisconsin and No. 2 California in particular registering substantial percentage increases. But even here in the Corn Belt, a state such as No. 7 Ohio is in the midst of a 3 percent gain in milk production over 1979.

Increases in both milk cow numbers and production per cow underlie the supply push. In mid-1980, the national dairy herd numbered 10,812,000 milk cows, up 0.7 percent from a year ago. Historically, milk cow numbers have decreased by 1 or 2 percent a year. Production per cow is running about 3.7 percent over 1979 and will exceed the 1979 average of 11,471 pounds by about 400 pounds.

Relatively low cull cow prices and a somewhat favorable milk-feed price ratio have provided a strong foundation to the higher levels of milk production. Now, however, the extended heat wave and drought in the Southwest, higher grain prices and the expectation that cull cow prices will move well above the recent 45 to 50 cent per pound levels should slow up the increases in milk production significantly in the next few months.

To complicate the situation, the increase in milk supplies through the first half of 1980 has been accompanied by a significant downturn in the demand for milk. Commercial sales of milk and dairy products were off by about 2 percent in the first half of 1980 as compared to a year ago. As a result, the difference between the quantity of milk produced and the quantity demanded has widened considerably in recent months. Because the dairy price support program stands as the means of handling the difference, or surplus, new attention has recently been directed at the price support program, the prices it affects and the costs of operating the program.

Dairy Price Support Situation

Support prices for milk have continued to be implemented by employing the parity standard. Authority for supporting milk prices comes from the Agricultural Act of 1949, which stipulates a support price in the range of 75 to 90 percent of parity. In recent years, temporary amendments to the Act have consistently moved the minimum support level up to 80 percent of parity rather than 75.

Last October 1, at the start of the 1979-80 marketing year, Secretary Bergland announced a support price of $11.22 per cwt., which was then the 80 percent of parity minimum. Subsequently, on April 1, 1980, the Secretary made a required semi-annual adjustment in the support price to reflect the increase in the Parity Index (inflation) over the previous six months. The new support level was $12.07 per cwt. Support prices and actual market prices for the period since October, 1979, are shown in Table 1.

Table 1: Milk Support Price and Actual Market Price; Per Cwt., 3.5 Pct. Butterfat

Month	Support Price	Actual Market Price In Terms Of Minnesota-Wisconsin Grade B Price
October, 1979	$11.22 per cwt.	$11.25 per cwt.
November	↓	11.27
December		11.34
January, 1980		11.37
February		11.35
March		11.59
April	$12.07	11.68
May	↓	11.66
June		11.68
July		11.73

The essential observation that comes out of Table 1 is that actual market prices for milk have slipped substantially under the announced support price in this spring and summer of 1980. Furthermore, it is unlikely that the market price will move up to or above the support price in the next several months. (Note: A support price of around $12.70 per cwt. will be effected October 1, 1980.) The primary reasons that the market price has been running 30 to 40 cents per cwt. under the support price are (1) the fact that the supply of milk has been so ample that the competitive level of milk prices in the Minnesota-Wisconsin area has been under severe downward pressure; and (2) the Commodity Credit Corporation purchase price for butter, cheese and nonfat dry milk has not been high enough to permit plants to pay at least the support price.

In a sense, it has not been for lack of trying that the USDA has failed to get the market price up to the support price. CCC purchases of dairy products in recent months have been substantial. Table 2 compares the quantity of CCC price support purchases for the first 10 months of the 1978-79 marketing year with the first 10 months of the 1979-80 marketing year.

Table 2: CCC Purchases of Butter, Cheese and Nonfat Dry Milk, Oct. 1978-July 1979 and Oct. 1979-July 1980

	1978-79	1979-80
Butter	60 mil. lbs.	237 mil. lbs.
Cheese	12	271
Nonfat Dry Milk	178	510
Milkfat Equivalent	1,374 mil. lbs.	7,551 mil. lbs.

As the Table 2 data indicate, the quantity of dairy product purchased for price support purposes in 1979-80 is more than five times the quantity purchased in 1978-79. The problem that emerges in periods of heavy CCC purchases is that of cost. The price support cost at present runs about $135 million for each one billion pounds milk equivalent purchased. This means that the cost of the dairy price support program in 1980 will exceed $1 billion.

Where To From Here

In view of the present dairy supply-price situation, several observations are worth advancing.

1. A new marketing year begins October 1, 1980. The law requires a minimum 80 percent of parity decision at that time. Present estimates for the parity formula indicate the new support price will move up to about $12.70 per cwt. Furthermore, that price will have to be adjusted on April 1, 1981 to reflect further changes in the Parity Index.

2. Hearings will begin in the near future directed at drafting the Agricultural Act of 1981. The dairy price support program will be the focus of serious attention in those hearings, particularly in regard to the parity standard and the mandate for open ended purchases in periods of excess supply.

3. The present situation of excessive milk supplies and heavy CCC purchases is not unprecedented. In 1953, the Commodity Credit Corporation purchased 10.2 billion pounds of milk (milkfat equivalent), and in 1962, CCC purchased 1.07 billion pounds. Purchases in both of these years were larger than the 8.5 billion pounds that probably will be acquired in 1980.

It is worth noting that in those two previous surplus situations, economic forces gradually shifted us out of the over-supply of milk, and there was finally no need for the base plans or culling incentive programs that always get discussed when there is more milk than is needed. But it is also worth noting that in those two previous over-supply situations, the Secretary of Agriculture had the option of going down to 75 percent of parity in his support decision. He does not have that option for 1980-81, and it will be interesting to see what a new farm bill will specify on that issue.