

— DISCUSSION —
**IMPACTS OF CONTEMPORARY POLICY CHANGES ON STRUCTURE,
EFFICIENCY, AND TRADING RELATIONSHIPS**

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The process of policy analysis can be aided by model building and testing, but the ultimate testing remains with how the models are used, their objectives and purposes. In the United States dairy industry, and perhaps equally in the Canadian dairy industry, the implicit objective of the policy regime has always been to support farm incomes. It is our belief that this will remain the major objective and will in fact be improved as a result of the current round of trade negotiations and agreements, the exact details of which largely remain to be broadcast and responded to by the industry.

There are many ways in which the industry will respond on a local, statewide, regional, national and international scale. These responses will all be conditioned by the nature of technology that is perfected within the industry itself. It makes little sense to talk about opening up an international market for milk when parts of our own country are deficit in reasonably priced milk. In all of the models that have been developed, technology is assumed to be held constant and currently that technology insists on moving heavy products long distances before they can be marketed. Part of a technical answer may be in research that allows milk to be dehydrated and then reconstituted at the marketing source. Under this approach there would be a potentially enhanced domestic and international market that could be easily serviced by the current United States industrial structure and even met jointly with the Canadian industry under a coordinated marketing approach.

While these models hold technology constant they also miss out on a few very important questions as well. The models provide market clearing flexibility through price adjustments only. This theoretically could mean that prices would rise in deficit areas until demand was satisfied and this could mean \$20.00 per gallon milk in some parts of the country. It is unlikely that this would ever be satisfactory to consumers or to producers. If the situation were ever to be immanent that milk would rise to these levels of price, it is quite likely that technical research would be heavily emphasized. The key question that all

¹ Editors Note: This comment and discussion is derived from a taped record of the presentation and discussion which followed.

of the modellers have to address in order that their models will become more directly applicable is the level at which technical change becomes more imperative than marketing change. To date this has not been modelled.

Another area where change is likely to occur is in the structural interrelationships within the industry. In the discussions surrounding this last Farm Bill many adjustments were made such as adding in the California standards for many computations and the raising of prices to placate different regional interests. These marketing adjustments will have structural impacts that are in their formative stages as we speak. It appears that there will be significant support for Federal Milk Orders even after subsidy programs are removed. The potential for united action will appeal to many in the dairy sector and these organizational adjustments will come about with government help or without it.

In particular it is quite likely that national organizations of dairy producers will seek to develop technologies in various product sectors specializing in dehydrated milk and its transportation, but also possibly pursuing other processed dairy sectors such as cheese, yogurt, and ice cream. If the international marketplace is truly opened then the interests of United States dairymen will clearly be in distribution technologies.

These models appear to be flawed in some very important areas. The production of nonfat dry milk increases which results in a decrease in domestic price simultaneously with the operation of the proposed Class IV pool which is designed to move product into information markets thereby increasing domestic prices.

In view of historic, current and projected increases in domestic consumption of cheese, the decrease in cheese production defies market logic. The same applies to the purchase of 116 million pounds of cheese by the Commodity Credit Corporation (Price Support Program purchases).

It is not clear how raising the support price when market prices are considerably above the support level stimulates additional domestic milk production. Furthermore, no consideration is given to the impact on production resulting from changes in feed, forage and other milk production costs.

These flaws result in questionable conclusions of the models and demonstrate models should not be expected or portrayed to result in absolutes, but should be used only as indicators of change.

A final element that is missing from the models is the reaction of other market sectors and other countries in the overall mix. While it is likely that processors will seek to counter the uncertainties attached to a non subsidized industry that is subject to massive reorganization at the whim of Congress, it is not clear as to what direction this will take. If it is in the interests of dairymen to pursue technical improvements in the processing industry, it may well be in the processor's interest to pursue technical improvement in the farming operation. The net balance will be critical and is not addressed in these models. A similar situation is likely to happen as other potentially export oriented dairy countries attempt to

develop market niches and face the possibility of cooperation with the United States or competition head to head in various markets. Again the models are weak in this area as well.

The models that we have are useful because they indicate the direction that change is likely to take. There are many side issues that can alter the course of this change and these must be remembered before any drastic assumptions are made about how dairymen in this country, or any country, will react.