
ANOTHER HALF PINT

Clearing the Milk Mess

BY THOMAS H. MCINNERNEY

THE REMARK was once made that, if Chinamen should demand shirt tails half an inch shorter, the textile mills in Manchester would suffer a serious economic crisis. On the same principle, if each American should drink one glass more of milk daily (thus raising the consumption to the minimum standard universally set by health authorities), there would be no milk "problem" to-day, no agitation for federal investigation of the milk industry.

One hesitates to use the phrase "overproduction of milk," because in a theoretical sense there can be no overproduction of a commodity while the world is still in need of it. In a theoretical sense, there is, of course, no overproduction of anything (except things that are inherently harmful), because the world at the moment needs all that can be produced. From the standpoint of economics, however, production must be considered in relation to a market that offers a fair return to the producer. All of this is obvious sixth-reader economics.

Milk production and the *per-capita* consumption of milk in all forms steadily increased until 1931. Then, at a date much later than that of other declines, the dairy industry began to feel the depression. *Per-capita* consumption declined, but production kept on rising. As Secretary of Agriculture Wallace stated on April 2 of this year:

Dairy farmers did not curtail. They kept on producing, as the records show. Even after the depression struck, the output of milk kept on growing. It increased two billion pounds from 1930 to 1932, to a record level.

Last year the milk output amounted to 102,309,000,000 pounds (about 47½ billion quarts), an increase of 17 per cent in the 10 years since 1924. The number of milk cows also increased about 17 per cent, to an all-time peak of 26,062,000.

This increase in the number and size of dairy farms is chiefly due to the economic advantages of this branch of agriculture. Milk production has long been by far the most profitable agricultural enterprise. Even last year the income from dairy farming amounted to \$1,250,000,000, which is about one fifth of the total agricultural income. In times of depression, such as 1921 and 1929, milk prices have declined less than those of other farm commodities. Also, the farmer is usually paid currently in cash for his milk and does not need to wait until the end of the season. Attracted by these considerations, grain, cotton, and vegetable farmers have been adding a few cows to their farms to supplement their incomes. And the net result is that production has mounted.

That is the background. There is one more fact to go into it. When the average person thinks of milk, he means milk in a bottle. If all milk were sold that way, there wouldn't be any real trouble, since that kind of milk brings the farmer the highest price. But less than 40 per cent of the milk produced is sold as fluid milk for beverage and cooking purposes; the balance is used for milk products, about 40 per cent of this going into butter and the rest into cheese, ice cream, condensed and evaporated milks, and so on.

These two general classes of milk — fluid milk and manufacturing milk — are important because they represent the two great economic divisions in the industry. Fluid milk brings the higher price of the two. It is generally sold in a restricted area, protected by health regulations. Hence the price is locally determined and is not affected by national competition.

"Manufacturing milk," however, sells in a national market, since most milk products can be shipped anywhere. Allowing for the freight differential, a wholesale butter distributor will pay no more for butter on the Atlantic sea-

board than he would have to pay for it in Wisconsin. The price for the milk (or butter fat) used to make this butter is therefore dependent entirely upon nation-wide supply and demand. The fluid-milk market is relatively stable, and, when the output of milk increases, the additional supply goes into milk products, principally butter. With the heavy milk production of the past three years, more and more milk has gone into milk products, increasing their supply, which in turn decreased their selling price. Since the price the farmer gets is based on the selling price of both milk and milk products, his return has necessarily declined.

A quart of Grade B fluid milk, for example, may sell at a retail price of 12 cents. A quart of milk used for butter has a much lower value: a pound of butter sells for 25½ cents (New York wholesale price, March, 1934) and it takes about 10½ quarts of milk to make it. Similarly, a pound of American cheese sells at 16 cents (New York wholesale price, March, 1934), and it takes 4½ or 5 quarts to make it.

II

IN THE ARTICLE, "The Milk Mess," in the May issue of THE FORUM, the author, Charles H. Melish, maintains that the distributors have made enormous profits out of their share of the milk price. He refers to the figures given by Secretary of Agriculture Wallace for the profits of milk distributors in Boston, Chicago, Philadelphia, and St. Louis. Nobody knows how the Secretary calculated these profits. The distributors indignantly deny them. As Mr. Melish says: "In arriving at this figure, excessive salaries and bonuses to officers, and certain other items which confuse the issue, were eliminated by the government auditors." The amounts and items so eliminated were never made public by the Secretary or his auditors, and the basis of the estimate is unknown.

There is, however, a very complete report of the costs and profits of milk distribution issued by the New York State Division of Milk Control. The New York State Legislature appropriated \$25,000 for this study, which was made by Dr. Leland Spencer, of the State College of Agriculture at Cornell University. The final report was made public in April of this year. It covers the operation of 19 milk dealers in New York City for the month of August, 1933.

The report shows that the profits of these dealers amounted to \$.00007 per quart, or about one cent for every 143 quarts sold. According to the usual accounting procedure, this profit would yield a return on investment equal to one eighth of one per cent a year. Only five of the 19 dealers made any profit on their August operations.

For the 21 upstate dealers under examination, the report showed a profit of one seventh of a cent per quart and a return on investment amounting to 3.8 per cent a year. Ten of the 21 dealers failed to make any profit at all.

These figures would hardly justify the charge of exorbitant profits in milk distribution.

In New York City the average selling price per quart, including milk sold as fluid and milk sold for milk products, amounted to 8.65 cents. The average production cost was 4.44 cents, 51.3 per cent of the selling price. The gross spread therefore averaged 4.2 cents. This represents the amount left to cover the dealer's costs of distribution and to permit him a profit, if any. The report stated:

It is practically certain that very few milk dealers in New York City are making profits equal to what is considered a normal return on invested capital.

III

"COST OF MILK distribution" covers, in a phrase, the most extensive system of package delivery in any industry, anywhere. Milk distribution in the United States is not duplicated in any other country. It represents a service to which Americans are now accustomed and which they apparently demand.

The American people drinks about 50,000,000 quarts of milk a day. A large part of this is delivered to the home by the distributors. In stormy or fair weather every night thousands of wagons, thousands of horses, and thousands of men begin the business of delivering this milk to the nation's homes. No department store faces anything like the same delivery problem. In New York City alone, for example, 12,000 milk wagons are engaged in the hours between midnight and eight a.m. in delivering some 4,000,000 bottles of milk to the city's doorsteps.

The distributor's services begin at the company's receiving station, to which the farmer takes or sends his milk. The milk must be

weighed and tested for butter fat, the element which gives it its richness. It must be cooled and prepared for shipment by truck and railroad in 40-quart cans or in large, glass-lined tank trucks (really thermos bottles on wheels). The distributor ships the milk to his plants in the city, where it is checked not only by the department of health but by the distributor's own inspectors.

As a rule, fluid milk must be either pasteurized or certified. The pasteurization process is simple in itself — the milk is merely heated to a temperature of 143 degrees Fahrenheit for half an hour to kill harmful bacteria — but, where large quantities of milk are handled, elaborate machinery is necessary. The milk then flows by pipe to the bottling apparatus, which may have a capacity of some 10,000 bottles an hour. The bottles have previously been sterilized for at least half an hour in bottle-washing machines, which in the larger plants have a capacity of over 200,000 a day. The bottles are sealed by machines, passed in cases out to the delivery platforms, and loaded on the milk wagons for final delivery.

This brief description has been given in order to indicate the operations which cost the distributor about five cents for every quart of milk. The wage-paid labor is the largest item of the distributor's cost. The milkman has a difficult job, particularly in a city like New York, where traffic is congested and where stair-climbing to apartments on different floors is an arduous part of his labor.

Because of the operations described above, a large volume of sales is an important factor in reducing the cost per quart. The Spencer report, previously referred to, showed that the larger distributor not only had a lower unit cost than the smaller distributor but that the administration cost per quart of milk was much lower than in the case of the smaller company.

IV

THE TWO LARGEST companies in the milk industry are National Dairy Products Corporation and the Borden Company. They are, as Mr. Melish took pains to point out, large corporations and they pay dividends to their stockholders. The net income of the National Dairy Products Corporation for the year 1933 amounted to 3.1 per cent of sales. The net in-

come for the Borden Company amounted to 2.5 per cent of sales. Mr. Melish is wrong in stating that "neither company sees fit to reveal the amount of milk it handles." The National Dairy Products Corporation, in its leaflets to stockholders and in its testimony presented before the United States Senate committee investigating milk distribution in the District of Columbia last fall, pointed out that it handles less than 9 per cent of the total milk production of the country and sells about 6 per cent of the fluid milk distributed retail and wholesale in the United States. Even in normal times its profit amounts to only a fraction of a cent a quart.

There is no one company that dominates the milk industry, and no such thing as a monopoly exists. No company can control the supply of the product, since that is entirely in the hands of the farmers. The distributors usually buy their milk from co-operative associations of producers. These are collective-bargaining organizations, and no fair-minded distributor questions the soundness of the principle upon which they are established. The association gives the independent farmer a bargaining power which he would not otherwise have. Mr. Melish describes Secretary Wallace as having "hinted very broadly that he expected that some . . . form of collusion might exist" between certain leaders of these associations and certain milk distributors. That is possible in isolated instances, wholly improbable on a scale of any importance. The milksheds throughout the country are distinct and subject to different regulations; the dairy farmers are numerous and proverbially independent; there are thousands of independent milk companies (one of the industry's problems is the ease with which a man can become a milk dealer); competition in distributing milk is keen, and there is no control over the supply.

Nevertheless, it is clear that all is not well with the milk industry at the moment, particularly in the Middle West. As has been stated earlier in this article, the supply of milk for by-product purposes has been large, and the income from this milk is small. Mr. Melish, suspicious of the dealers, suggests a Milkshed Authority which could be tried out experimentally in New York. This would be free "from political influence and control" and "it

would take over all distribution of fluid milk within the milkshed. Equipment might be rented or purchased from the existing distributors." The producers would be paid a profit; the milk would be sold to the public at cost.

This certainly could be done. We could do it for bread or tomatoes or ice or for any industry. The question is: Why should we? Is there any magic in state ownership of ordinary enterprises which will make them profitable where, under private management, they were not earning a fair return? In making his recommendation, Mr. Melish refers to the then-preliminary report by Dr. Spencer, showing that the milk dealers in New York City were operating at a loss of three tenths of a cent in August, 1933. Mr. Melish's comment is: "If the report is accurate, the sooner a Milkshed Authority is set up in New York City, the better. Private dealers cannot be expected to operate at a loss for an indefinite period."

The obvious implication is that government dealers *can* be expected to operate at a loss for an indefinite period; and therein too often lies the fallacy of those who advocate municipal ownership in place of private enterprise. Profits don't matter; losses will be paid by the taxpayer.

V

THE GENERAL economic principle of the present Administration, specifically stated in the program of the NRA, is not to govern industry but to make it possible for industry to govern itself. The government establishes a framework of regulations which will eliminate the evils of excess competition and still permit the benefits of intelligent competition. Several states now have milk-control boards with regulatory powers over the dairy industry. In New York the control board is now the Division of Milk Control in the Department of Agriculture and Markets. Its powers over the industry are drastic.

Aside from these regional and state agreements, the Federal program under the AAA contemplated very definite regulation of the industry, based upon the control of production. Mr. Melish discussed it in his article. The plan of reducing production has now been abandoned. On April 23, 1934, Chester C. Davis,

Dairy Administrator, announced that the plan had been withdrawn "because we do not feel that it has sufficient support from the farmers." Throughout the country, particularly in the East, the farmers were opposed to a program which would fix the amount of milk which they could produce.

As against restriction of output, the industry offers another and not unreasonable solution — increase in consumption. The restriction program was to cost a quarter of a billion dollars. The National Dairy Council — a co-operative research organization in the industry — has announced that the government could do much more for the farmer if it used ten million dollars to increase milk consumption. The large milk distributors are, of course, devoting considerable money and effort in advertising and educational work to expand the milk market. The combined national advertising appropriations of National Dairy and Borden probably exceed ten million dollars a year. New York State has appropriated five hundred thousand dollars for the same purpose.

This is highly practical work which, if successful, would offer to the farmer a very much larger fluid-milk market — and it is fluid milk which brings the farmer his highest price. If every person consumed one half-glass more of milk daily, the demand would require over ten billion pounds more milk than last year's peak production. One full glass more — a half-pint — would increase milk consumption by twenty-three billion pounds, or about eleven and a half billion quarts a year.

This is no dairy farmer's corn-cob pipe dream. Such an increase is not only possible but highly desirable from the standpoint of national health. The average consumption of fluid milk in this country — in cooking and as a beverage — is less than a pint per person a day. Scientific and health authorities would double this figure.

With a milk consumption sufficient to meet health requirements and with state and federal authorities supervising the price structure, the milk industry — both producer and distributor — will be able to operate on a sound economic basis, without embarking on radical departures from the present administrative program; while at the same time the consumer himself will be adequately protected and effectively served.

CO-OPERATION OR REVOLUTION

BY STEWART PATON

MANY AMERICANS still believe in miracles and magic. They count upon patent medicines to cure their physical infirmities. A primitive faith in magic words, taboos, and various kinds of charms and incantations temporarily frees them from worry, relieves their spirits, pulls them out of attacks of depression, restores confidence, while they dream of a new heaven and a new earth. At present these believers in faith cures are trying to decide which one of two words they will adopt as a slogan that will convert despair into hope and change a falling into a rising tide of progress. "Revolution" is one, and "co-operation" is the other talisman.

Revolution is a form of magic upon which man has always depended whenever he engaged in the impossible task of trying to effect miraculous and sudden changes in human nature. If we wish to make at least one more effort to be reasonable and sane, there is no reason to stop now to consider what would or would not be accomplished by the adoption of revolutionary methods.

Co-operation in constructive enterprises is a promising field of investigation for the millions of people whose nerves have been on edge and who have wasted both energy and substance in fussing, fuming, and fearing.

Success in making peace and progress depends upon the skill we acquire in carrying on constructive, co-operative enterprises. But, as we know from sad experience, we have a great deal to learn to secure effective co-operation. It is easier to revolt than it is to learn to co-operate. While a revolutionary attitude of mind stimulates the desire to impose our views, it does not help us to learn a new art. "Revolutionaries," as Gerald Heard sagaciously remarks, "are never interested in understanding, but in imposing."

We have treated co-operation as a fad but

not as an art to be learned and practiced. Co-operation is not a lost art. It is the newest and latest of all arts. During his long history, man has only tried, in an amateurish, blundering, ineffectual manner, to acquire skill in making united, concerted body-mind efforts to establish peace and sanity.

To-day public interest is directed more and more toward the problems of how to apply the lessons we have learned from the experiences of the past few years in improving co-operative methods of living and of making a living. We are beginning to appreciate, as we have never done before in time of peace, the need for effective co-operative activity. One of the most encouraging signs of the times is the awakening desire to pool human interests. Not until we have been more successful in this undertaking shall we be prepared to take a long, strong pull together to ensure effective action. We have just begun to sense the importance of assisting farmers, business men, bankers, economists, politicians, lawyers, physicians, and educators to participate in well-planned, united efforts. The experiences of the past two decades have given a tragic emphasis to the energy dissipated in needless discord, opposition, and conflict. We must learn to co-operate if we expect to retain a vestige of civilization. No man can live to and for himself. Our happiness and the future of democracy depend upon what can be accomplished in the selection of methods that will stimulate and encourage co-operative activity.

AN EMOTIONAL PROBLEM

WHAT, THEN, can we do that has not already been attempted, so that we shall be more successful in making united, well-directed efforts to improve existing conditions? There must be some way of reducing the chances of recurrence of periods of depression and of