| February 2, 2022

Imagining an Independent Milk Pricing System

Josiah D. Beahm
Liberty University

Abstract

As the Great Depression raged on in the 1930s, President Franklin Roosevelt sought to nationalize the milk marketing system for dairy farmers in an effort to raise prices in the midst of the Great Depression. These actions did just the opposite; the Agricultural Adjustment Act, the Federal Milk Marketing Order, and the 1937 Agricultural Marketing Agreement set price minimums ensured by the federal government. This centralized and socialistic system has created the nightmare that is the current milk pricing system, resulting in stifled innovation, artificially low prices for dairy farmers, and the exiting of countless small dairy farmers throughout the United States. Through a gradual system of change toward milk pricing independence, this paper proposes abolishing the milk pricing floor that has been in place since the mid-1930s, and replacing it with local and state control over pricing. A dairy savings account is also proposed, much like the current health savings account that is in the healthcare industry. Allowing dairy to sell their milk according to actual supply and demand will allow higher milk prices, and a dairy savings account will help older dairy farmers in difficult times or allow them to give it to the next generation. These policies are in line with a state and local level approach that will encourage innovation and build a de-centralized national arsenal of food supply in the United States for generations to come.

The U.S. Federal Government has had price controls on the milk pricing system since these Depression-era price policies were put into place from Franklin Roosevelt's administration. This has created a centralized and distorted system of dairy pricing that has driven small dairy farmers out of business and has put an end to their way of life that they built for decades. In the 1920s, the industrial revolution was starting to transform the lives of everyone in the United States, including farmers. In previous generations, most farmers made just enough milk to feed their family. Self-sufficiency and community involvement was the norm, and local control over most economic aspects of life was considered good. When people started moving into the cities, a need arose among dairy farmers on how to best distribute milk to these urban areas[1]. This led to milk distribution companies starting around this time, such as Maryland & Virginia Milk Producers, who started in 1918 to distribute milk to Washington D.C.[2] During the 1920s, difficulties in milk pricing arose among producers. There were a couple of different solutions to this problem—flat prices, classified prices, and the base excess plan. The class system had different classes, or categories, for milk that would have a set price. The base system used a base amount of milk that a producer would use for a certain period in the year, and this would determine the price of his milk for the rest of the year. These solutions, however, led to more instability. Instability combined with the Smoot-Hawley tariff's disastrous results led to the Roosevelt Administration wanting to swoop in and save the day. His polices did just the opposite, however.

Criteria & Problem Definition

The criteria to solving this pricing issue is centered around the view that most economic problems having to do with pricing are best solved at the state and local level. Federal government intervention and centralization is never the answer, and letting the free market decide prices will always lead to an efficient and well-balanced system. The predominant view that would refute this would likely say that government solutions being abolished would lead to mass economic suffering, instability, and chaos. This paper will use the listed criteria to prove why this is not the case. Evidence will be used to back this claim up, and will show through primarily numerical data, that more government centralization in milk pricing leads to economic chaos, instability, and diluted price signals. The policy problem lies in the central fact of the Roosevelt Administration's efforts in starting to centralize the milk pricing system. In 1933, Congress passed the Agricultural Adjustment Act which sought to reduce supply by paying farmers to destroy some of their assets. This got struck down, however, in *U.S. v. Butler*[3] because of the requirement that farmers had to dispose of their product in order to stabilize the market. The Administration then enacted the Federal Milk Marketing Order and the 1937 Agricultural Milk Marketing Agreement. These actions made it so that the government had to pay a minimum milk price. No longer would the milk pricing system be left to supply and demand; it would be based on the government's minimum pricing system. It also centralized the milk market in order

[1]Eric M. Erba & Andrew M. Novakovic, "The Evolution of Milk Pricing and Government Intervention in Dairy Markets," Cornell Program on Dairy Markets & Policy, 1994, https://dairymarkets.org/pubPod/pubs/EB9505.pdf.

[2] "Who We Are", Maryland & Virginia Milk Producers, https://mdvamilk.com/.

[3] "U.S. v. Butler", *Oyez*, https://www.oyez.org/cases/1900-1940/297us1.

[4] "Milk Marketing Order Statistics", USDA, https://www.ams.usda.gov/resources/marketing- order-statistics

for the government to be in charge of it[4]. The problem with this solution is that it created a system and expectation of government price fixing that has never been repealed. To this day, there have been multiple farm bills since the Roosevelt Administration's actions that have merely tinkered with it, but have not fixed the underlying problem. For those who wonder why these actions in the 1930s are at all relevant to today, it is because it is still the way that the milk pricing system is operating to this day; furthermore, it has created a disastrous milk pricing system that has put many dairy farmers out of business and weakened U.S. national security.

Evidence

There is a multitude of evidence that these centralized policies have had disastrous consequences. In Wisconsin, there were 7,292 dairy farms in the state in January 2019; one year later, in 2020, there were 6,574 in the state[5]. In Virginia, there has been a very significant reduction in the number of dairy farms. In 1999, there were 996[6] dairy farms in the state. By 2009[7], that number dropped to 715, and by 2020, it fell to 450[8]. Even when the policies were put into place during the 1930s, there was not an increase in price directly following the actions. In 1929, right before the Great Depression came into full view, the price was $2.20 per hundred weight. In 1935, the Federal Milk Marketing Order was passed, and in the year that the 1937 Agricultural Marketing Agreement was passed, the milk price was $1.80. In 1938 it fell to $1.40, and in 1939 it only rose $.05 to $1.45. It was only when World War II started that it started to rise slowly[8]. In the present day, it is still evidenced in the fact that there has been a 13% increase in milk production in the United States, but as was seen in the statistics, there has been a decrease in dairy farms across multiple states[9]. On top of these statistics, there is also evidence of milk prices for dairy farmers now that reflect the danger of the pricing system. In 2011, the average milk price per hundred weight in the United States was $20.70. In 2019, when the economy was good and without recession, it was only $18.65[10]. This may not seem like a very big price difference to the average person, but it has killed many dairy farms across the United States, and has taken away their way of life. In the present day, it is still evidenced in the fact that there has been a sharp decline in the number of dairy farms, and an artificially low milk price. Not only is there monetary and statistical data to back up these claims, but there is also

---

[5] "Wisconsin Dairy Farms By Type of Milk Produced", Wisconsin Department of Agriculture, Number of Wisconsin Dairy farms by county.pdf

[6] "Virginia Dairy Farms" Virginia Tech Extension, 1999, https://www.sites.ext.vt.edu/virtualfarm/dairy/dairy_va.html.

[7] "Virginia Dairy Industry Economic Impact", VSDA, 2011. https://www.vsdaonline.com/news/facts_about_the_dairy_industry_in_virginia.pdf

[8] "Celebrate Virginia's Farms During Dairy Month", Virginia Department of Agriculture and Consumer Services, https://www.vdacs.virginia.gov/press-releases-200604-dairy-month.shtml

[9] "Milk Production", USDA, February 20th, 2020. Milk stats.pdf

[10] "Prices for milk per hundredweight, 1900-2011", U.S. Department of Agriculture, 2011. Prices per hundred weight 1900s-2011.pdf

[11] Chester and Carol Beahm, personal interview, November 26, 2021.

dairy farmers for 35 years. They were never wealthy, but always had enough to provide for them and their 11 children in those 35 years[11]. In 2018, they were forced to sell all of their assets with very little left to spare. The income from their sale barely covered their debt. Any simple google search of 'dairy farms going out of business' will give you countless articles of stories like Chester and Carol Beahm throughout the nation.

Considering The Alternatives

There are many alternatives that could be proposed, but any one worth its salt must start with less government control. The first alternative would be to gradually repeal the 1937 Agricultural Agreement and Federal Milk Marketing Orders. Although there have been many subsequent farm bills since this was passed that have replaced it, repealing the law itself along with the subsequent farm bills would be a step in the right direction. This would essentially get federal government out of the business of trying to "help" farmers. Allowing the free market to decide prices by slowly and gradually letting government get out of the way would be the most help to not only dairy farmers, but local communities as well. Many dairy farms help strengthen local communities and economies; consequently, when so many of them go out of business such as in the last couple of years, it hurts local economies. This would not be a perfect step, but it would certainly work better than what has been done in the last nine decades. Another alternative would be to create dairy savings accounts. Much like health savings accounts, these would be savings accounts that would be tax free for dairy farmers. According to the Heritage Foundation[12], a flexible spending account for a health care plan would mean that the employer to set aside pre-tax dollars through salary reduction. If applied to milk pricing, with all the adjustments that come with it being a different industry, it would allow farmers to have a safety net of their own that would not be taxed. Since many farmers are self-employed, they would be in charge of this since it would be taken care of by employers. This law could also be amended into the 2014 Margin Protection Program. Since this bill is a supposed insurance protection program for dairy farmers when their milk low, it could easily be amended into it to include this[13]. This program could also be used, if desired by the dairy farmer, to help his son or daughter start his own dairy operation. As it currently stands, it is very difficult for any young farmer to get started, given the current milk prices and expenses. Along with a repeal of the estate tax, the transfer of assets to the younger farmer would be far less costly and more efficient. Devolving milk pricing to the states would be the third and final option. This option would arguably be the hardest to get passed, but may lead to the most beneficial system. Leaving milk pricing to the states would have several benefits; chief among these would be more local control. One does not have to look very far to find out how having more local control works fare better. In *Free to Choose*, Milton Friedman discusses how much of a difference there is between a nation with a centrally planned economy, and a nation such as the United States with a free market[14]. This principle also applies to the

[12] Friedman, Milton. *Free To Choose*, Harvest books, 1979, pg. 54.

[13]Shaefer, Nina Oweharenko. "Broaden Health Savings for Families" *The Heritage Foundation*. April 16th, 2004. https://www.heritage.org/health-care-reform/report/health-savings-accounts-how-broaden-health-coverage-working-families

[14]"2014 Farm Bill Fact Sheet" *USDA*, 2014. https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/archived-fact-sheets/mpp-dairy_fact_sheet_august_2016.pdf\

federal government's hand in milk prices, more specifically Federal Milk Marketing Orders. Devolving this system to the states would allow more innovation in what system works best. It would also allow state and local officials to decide what type of system they want to set up. Devolving the Federal Milk Marketing Orders to the states would set the milk pricing system free.

Tradeoffs & Projected Outcomes

The tradeoffs to these plans would be more uncertainty in the short term, but more certainty in the long term. A tradeoff of repealing the current pricing floor would be more instability for a period of time, but this would lead to more stable pricing because of increased demand and innovation. As it currently stands, innovation in milk is stifled by government intrusion, thereby decreasing efficient marketing. If the government were to get out of the way and take away the price floors, it would create a much more efficient pricing system. No longer would the prices be left up the slow and bloated government machine; if the prices were left up to the market, more clear-cut pricing signals would be communicated to the producers. A tradeoff of this would be that there would also be less room for big government subsidies and corruption. A smaller government in agriculture would also less room for career bureaucrats to mess with prices at the expense of dairy farmers. Although a more unstable pricing system in the short-term would hurt temporarily, anything to help dairy farmers in the long term would mean a stronger and more secure food system in the United States.

General Recommendations—Which policy is the better option?

This paper supports devolving milk pricing to the states as the most practical option. Devolving pricing to the states allows local officials to decide what course of action is best. What may work in Wisconsin, with its thousands of dairy farms, will not work in a place such as Arizona. The two states are vastly different—in culture, geography, climate, and the number of dairy farms. Leaving milk pricing up to the states also creates laboratories of innovation to see which system works best. A dairy savings account would also be a policy option to consider in the future, but this is lower on the list due to the fact that it would still be a government run program. Devolving the milk pricing system to the states and repealing the farm bills passed in the spirit of the 1937 Agricultural Marketing Agreement and the Federal Milk Marketing Orders would allow a far more efficient system of letting the free market create a thriving milk industry.

Who Would Be Affected?

Obviously, dairy farmers would be affected in such a massive policy shift as was recommended. The United States as a whole, however, would also be affected. Although this seems broad, it means that the entire national security of the United States would be secured. The Covid-19 pandemic taught us a great deal of things, chief among them that food and medicine production needs to be left in the United States. If the milk pricing system were to be divided into 50 different systems, there would be far less room for a competitor such as China to take advantage of it. It would also be far more secure in its efficiency and ability to produce the maximum amount for the most efficient price. Aside from this, dairy farmers would be the main beneficiaries, as would their local economies.

Conclusion

Creating a strong dairy industry for the nation is critical for the health and safety of the nation as a whole. More importantly than this, however, is that something is urgently needed to help smaller dairy farmers from going out of business. Throughout the history of the United States, dairy farms have provided strong and vibrant communities by helping their local economies, raising children with the values of hard work and proper ethics, and providing for the food need of their local communities. Before the New Deal, farmers relied on each other in their communities to help them when milk prices were lower. After the New Deal, however, the Federal Government stepped in to “help” stabilize milk prices. This not only led to an unstable milk pricing system, but eventually brought devastation to farmers and their families. Because of the abhorrent New Deal policies in agriculture such as the Agricultural Adjustment Act, the Federal Milk Marketing Orders, and the 1937 Agricultural Milk Marketing Agreement, farmers were forced to waste their production in order to stabilize the market. This is not only a waste of money, but is simply being a bad steward of what God entrusted to us. Fast forwarding to present day, and the effects of these policies are seen in dairy farms all across the nation. Farmers who have worked for 35 or 40 years, such as Chester Beahm, have seen their milk prices plummet as inflation rises. As many farmers sell their assets, there must be something done very quickly in order to prevent these losses. This paper endorses the devolution of the milk pricing system to the states. This would put state and local officials back in control of what happens to their milk. This policy, coupled with the repeal of the Federal Milk Marketing Order, would produce a milk pricing system that would encourage innovation again. To put it simply, dairy farmers are exhausted. They have extremely low prices for their milk, combined with rising inflation and a labor shortage. It is far past time to give these men and women separation from burdensome government policies in order to stabilize the milk market, so that they can go back to doing the job that God has called them to do.

Bibliography

[1]Eric M. Erba & Andrew M. Novakovic, "The Evolution of Milk Pricing and Government Intervention in Dairy Markets," Cornell Program on Dairy Markets & Policy, 1994, https://dairymarkets.org/pubPod/pubs/EB9505.pdf.

[2] "Who We Are", Maryland & Virginia Milk Producers, https://mdvamilk.com/.

[3] "U.S. v. Butler", *Oyez,* https://www.oyez.org/cases/1900-1940/297us1.

[4] "Milk Marketing Order Statistics", USDA, https://www.ams.usda.gov/resources/marketing-order-statistics.

[5] "Wisconsin Dairy Farms By Type of Milk Produced", Wisconsin Department of Agriculture, Number of Wisconsin Dairy farms by county.pdf.

[6] "Virginia Dairy Farms" Virginia Tech Extension, 1999, https://www.sites.ext.vt.edu/virtualfarm/dairy/dairy_va.html.

[7] "Virginia Dairy Industry Economic Impact", VSDA, 2011. https://www.vsdaonline.com/news/facts_about_the_dairy_industry_in_virginia.pdf.

[8]"Celebrate Virginia's Farms During Dairy Month", Virginia Department of Agriculture and Consumer Services, https://www.vdacs.virginia.gov/press-releases-200604-dairy-month.shtml.

[9] "Milk Production", USDA, February 20th, 2020. Milk stats.pdf.

[10]"Prices for milk per hundredweight, 1900-2011", U.S. Department of Agriculture, 2011. Prices per hundred weight 1900s-2011.pdf.

[11]Chester and Carol Beahm, personal interview, November 26, 2021.

[12] Friedman, Milton. *Free To Choose,* Harvest books, 1979, pg. 54.

[13]Shaefer, Nina Oweharenko. "Broaden Health Savings for Families" *The Heritage Foundation*. April 16th, 2004. https://www.heritage.org/health-care-reform/report/health-savings-accounts-how-broaden-health-coverage-working-families.

[14]"2014 Farm Bill Fact Sheet" *USDA*, 2014. https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/archived-fact-sheets/mpp-dairy_fact_sheet_august_2016.pdf\