Controlled milk markets studied

UNIVERSITY PARK — Pennsylvania is one of 29 states exercising some type of control over the price of fluid milk Fourteen states, including Pennsylvania, actually fix minimum or maximum prices for bottled milk

Regulations granting states this authority go back to chaotic conditions in the dairy industry during the depression of the 1930's, according to Milton C. Hallberg, professor agricultural economics at Penn State University.

Dr. Hallberg published findings from a study of 83 U.S. fluid milk markets in the Fall issue of "Science in Agriculture," the quarterly magazine of the Agricultural Experiment Station at Penn State.

The study was not intended to settle long-standing arguments over state milk control "once-and-for-all," Hallberg stated. Rather, the work examined the relationship between milk control in the 29 states and two indicators of market performance — innovativeness and marketing margins — using 1969 figures.

Innovativeness was judged on the basis of dates of introduction of various milk containers, products, and methods of product handling. Marketing margins were measured as the difference between farm price and retail price — adjusted for variations in sales composition

Of the 83 markets in the sample, the sale of milk below cost is prohibited by state authority in 17 markets. Minimum or maximum prices at retail or wholesale are established by state authority in 22 markets. Minimum prices to producers only are set in 4 markets by state authority. Forty of the markets studied were located in states having no state milk control.

Performance of fluid milk markets was found to vary substantially from market to market. Larger markets, as measured by size of population served, tended to be less innovative and have higher margins than the smaller markets.

Markets with a larger portion of their milk packaged by union workers tended to be slightly less innovative. However, the degree of unionization did not appear to have a significant impact on margins in the sample markets. Finally, there was much variation in margins among different regions of the nation. This was apparently due to differences in such things as transportation and labor costs.

Dr. Hallberg and associates found state milk control to be significantly related to "performance" within the sample markets. On the average, margins were 4 cents per half-gallon higher in markets with resale price fixing than in markets with no state milk control.

The average margin in markets with other types of state milk control also differed from that in markets with no state milk control. The latter differences, however, were not significant. Similarly, markets with resale prices fixed by state authority tended to be less innovative than markets with no state milk control.

"Our conclusions must not be interpreted as suggesting that a specific fluid milk market with resale price fixing will have higher margins and be less innovative than a specific market with no price fixing," Hallberg observed.

"Nevertheless, the data clearly revealed this tendency. One would normally expect markets with resale price fixing to have higher margins and to be less innovative. Thus, proponents of state milk control should examine their own situation critically to determine whether such results are likely and whether they are justified."

He indicated there may be desirable services provided the public as a result of price controls that would not be provided under stiff competition such as home delivery of milk, additional services to the elderly, and price stability.

But as this and other studies have shown, these services — if indeed provided — appear to come at some expense. The tradeoff among benefits and costs must be weighed in assessing state milk control. The Penn State study made no attempt to determine the additional services provided by state controlled markets, and did not place a value on such services.

The Fall issue of "Science in Agriculture," containing the full article, is available from 112 Agricultural Administration Bldg., University Park, Pa. 16802. Individuals may also ask to have their names placed on the mailing list for all issues of "Science in Agriculture."

Penna. farms funded

HARRISBURG, PA. - Operating and real estate loans to Pennsylvania farmers by banks totaled more than $485 million at year-end 1974, according to the Pennsylvania Bankers Association.

William A. Betz, chairman of the association's Agricultural Lending Committee, said that banks held $242 million in production loans, 60 percent of all loans in this category, and $243 million in farm mortgage loans at the end of 1974.

Betz, who is president of the New Tripoli National Bank, said that by comparison life insurance companies in the state held $18 million in real estate loans, Federal Land Banks $175 million in real estate loans, and Production Credit Associations $129 million in production loans.

He added that the Farmers Home Administration held $35 million in real estate loans and $22 million in non-real estate operating loans.

Betz said that figures compiled by the American Bankers Association show America's banks nationwide at year-end 1974 had $18.2 billion in farm operating loans outstanding, up 6 percent from the year before, and $5.9 billion in real estate farm loans outstanding, up 9 percent during the past 12 months

Farmers' equity totaled $438.4 billion nationwide at the end of 1974, increasing $36.7 billion from the end of 1973.

Farm expenses jumped $7.6 billion to $73.4 billion at the end of 1974, with realized net income from farming dropping $1.7 billion to $27.7 billion during the year, but still the second highest income level ever, Betz reported.

The estimated number of farms at the beginning of this year totaled 2,830,000 - down 14,000 from a year before, and down 1.1 million from the total in 1960, Betz said.

Pennsylvania bankers are increasingly aware of the huge capital investments required by farmers today and are using improved lending programs, correspondent bank services and secondary market resources to help meet the changing credit demands of the state's farmers, Betz noted.

Eighty-seven percent of the 390 banks in Pennsylvania extend credit to farm operators.