

Quotas Termed Humane Way Of Reducing Surplus

BY MARTHA SHELDON
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SYRACUSE — Mandatory production quotas for the dairy industry are a more humane way than bankruptcy to bring supply in line with demand, according to Texas A&M University agricultural economist Ronald Knutson.

"Nobody says farmers shouldn't make a profit," rebuts Cornell University agricultural economics professor Bernard Stanton. "What they do say is, some farmers should not get their cost of production."

Economists Knutson and Stanton argued the pros and cons of mandatory supply management recently as part of a day-long conference exploring the history of supply-management programs and their implications for the dairy industry. The conference was sponsored by Cornell University in response to an increased grassroots interest in the topic. Over 150 farmers, milk handlers, agricultural journalists, and representatives of dairymen from New York, adjoining states, Canada, and states as far away as California attended the conference.

Knutson set the stage for advocating mandatory supply management by explaining that the current national dairy policy is in disarray - volunteer production control programs have failed to restore the balance between supply and demand, a technological explosion is on the horizon, there have been regional shifts in production, and the support price for milk will have to

drop to \$8 per hundredweight to bring supply back in line with demand.

"The dairy program is outdated and, worse than that, will fall of its own weight. Only mandatory controls can effectively solve the problems," he maintained.

Knutson said dairy farmers need mandatory supply controls because there is no escape valve for the dairy industry - there are no profitable alternatives in agriculture today for dairymen to turn to. "We can drive farmers out by prices or we can provide orderly transition to lower production through mandatory controls." Knutson contended that mandatory controls are more humane.

Although Knutson argued for one national milk market order and centralizing all dairy support programs into one office of the United States Department of Agriculture, he recognized the comparative production cost advantage the West now clearly has in the dairy industry.

Knutson advocated establishing national quotas based on expected consumption, using 1985 production as the base for producers over which quotas would be proportioned. Prices paid producers would be determined by a "free market."

Such a mandatory supply-control policy would solve the dairy industry's problems, said Knutson. Production would equal consumption, the government cost would be minimal, effects of technology would be controlled, and the value of the quota would reward farmers and provide them



Hollis Hatfield (right) and Robert Jacobson (left) listen to Judd Mason's point at the recent Cornell University Conference on supply management programs for the dairy industry.

with a monetary incentive for exit. A side benefit, he said, would be to encourage the movement of milk production to the most efficient producers.

No one can argue that supply is not exceeding demand and that technology will change the industry, said Stanton, but history shows that voluntary quotas do not work and that producers become interested in mandatory quotas only when other programs fail. Once adopted, mandatory controls will "always be with us," he said.

Mandatory controls limit the farmer's ability to change and respond to new technology,

Stanton asserted. They penalize for over production as well as under production. The value of the quota will be built into the production costs and passed on the consumer.

Regional shifts will not occur, Stanton said, because once a region gets a base it will hang on to it, just as has happened in the peanut and tobacco industries.

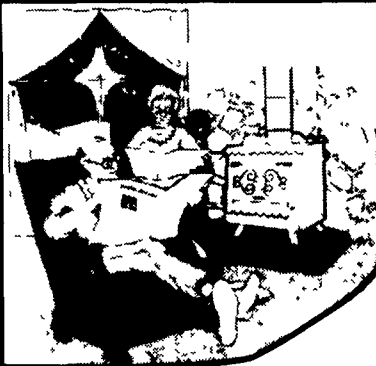
Mandatory production controls with built-in price increases to producers will mean higher costs to consumers and the inevitable development of substitute products, which will in turn lower demand, he argued.

Penalties for overproduction will be one of the hardest things for our country to deal with, Stanton said, but enforcement is essential to making the program work.

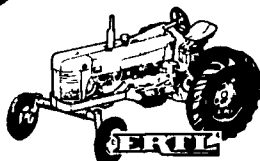
Furthermore, the value of the quota will present farmers with a windfall gain and pose a capitalization problem for the next generation of dairy farmers who want to enter the industry.

In his rebuttal, Knutson contended the only "freedom" dairy farmers now have is to go broke. With quotas, they will have the freedom to sell their quota. As for the capitalization of the quota, (Turn to Page A22)

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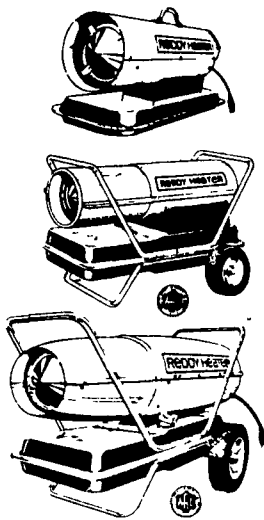
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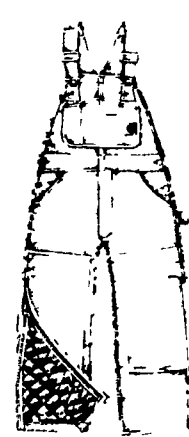
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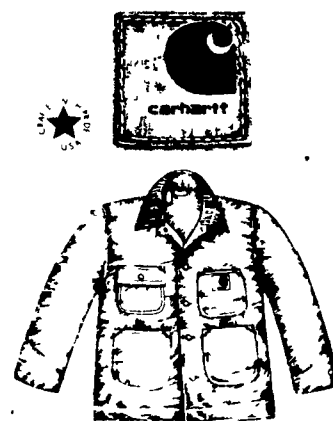
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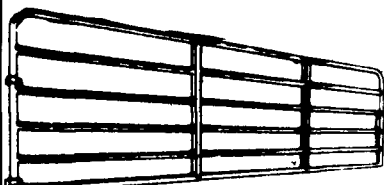
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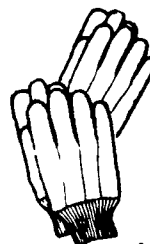
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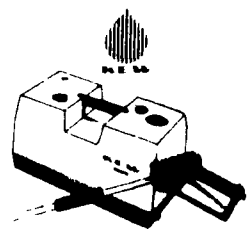
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