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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-199204 AUGUST 12, 1980

The Honorable Alvin J. Baldus, Chairman
The Honorable James M. Jeffords
Ranking Minority Member
Dairy and Poultry Subcommittee
Committee on Agriculture
House of Representatives

113007

HSE00103
Congressional

Subject: Evaluation of Comments ~~Made by the Dairy and Poultry Subcommittee, House Agriculture Committee,~~ on GAO's Report Entitled "Alternatives to Reduce Dairy Surpluses" (CED-80-88A)

This is in response to your letter of August 1, 1980, regarding our report "Alternatives to Reduce Dairy Surpluses," CED-80-88. The report is being released today, and as agreed with your office, we are also releasing copies of your letter and this response. As you will note, the report is dated July 21, 1980. Through a mix up with our printing contractor, the report was not available for distribution until today.

We appreciate the constructive comments to our report offered by the Subcommittee. As you point out, the issues of trade policy, parity levels, surpluses, consumer costs, and alternative programs all need to be adequately explored in establishing a dairy policy. (See attached enclosure.)

We recognize that a report on sensitive and controversial issues will be criticized by many for various reasons, particularly if the report recommends changes to an established program such as the dairy price support program.

We hope that our report and enclosed comments and any discussions they generate can be used constructively to help the Subcommittee in establishing dairy policy that will balance the interests of the dairy industry, consumers, and taxpayers. We would be glad to assist the Subcommittee in any way we can in its future deliberations of the dairy program.

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Elmer B. Staats
Comptroller General
of the United States

(022410)

EVALUATION OF COMMENTS MADE BY THE DAIRY AND POULTRY SUBCOMMITTEE, HOUSE AGRICULTURE COMMITTEE, ON GAO'S REPORT ENTITLED "ALTERNATIVES TO REDUCE DAIRY SURPLUSES" (CED-80-88)

COMMENT

Trade Policy--The study fails to consider the influence of trade policies on the price support program, although it is generally recognized that such policies are leading to excess availability of dairy stocks in Government hands. As a result of international trade agreements, the U.S. is absorbing additional cheese imports. During the last calendar year, imports were somewhat greater than actual CCC [Commodity Credit Corporation] purchases. Specifically, the U.S. during 1979 imported the equivalent of 2.3 billion pounds of milk, and at the same time, CCC purchases amounted to 2.1 billion pounds on a milk equivalent basis. In addition, casein imports of 150 million pounds per year are displacing over 400 million pounds of domestically produced nonfat dry milk.

GAO EVALUATION

We discussed dairy trade policies in our report entitled "U.S. Import Restrictions: Alternatives to Present Dairy Programs" (ID-76-44 dated December 8, 1976), and therefore we did not include such issues in this study. In the 1976 report we discussed dairy imports and their impact on consumers, taxpayers, and dairy farmers. The Congressional Budget Office (CBO) also discussed import policies in a March 1979 report entitled "Consequences of Dairy Price Support Policy."

Further, during most of the study phase leading to our current report, the negotiations for the multi-lateral trade agreement were still in process. The agreement did not become effective until January 1980, and therefore we believe that it would have been premature to assess the effect of such an agreement.

Procedures for controlling imports are already in place. Import quotas are authorized under Section 22 of the Agricultural Adjustment Act of 1933 as amended (7 U.S.C. 624). Since 1974 imports of dairy products have been about 1.5 to

1.6 percent of U.S. production. Also, U.S. Department of Agriculture (USDA) statistics showed that imports exceeded CCC removals in only 5 years since 1960. One of those years was 1979.

According to USDA statistics, casein imports did increase about 10 percent in 1979 to a total of 151 million pounds. In December 1979 the International Trade Commission issued a report on a study of casein imports. The report concluded that virtually no relationship exists between imports of casein and mixtures of casein and purchases of nonfat dry milk under the price-support program in recent years. USDA questioned the Commission's study methodologies and is performing a subsequent evaluation of the circumstances surrounding the use of casein and casein mixtures and the relationship of the importance and use of casein to the U.S. dairy price support program and to the issue of domestic casein production. USDA plans to complete its study by February 1981.

COMMENT

Parity Levels--The report discusses the need to balance supply and demand but fails to consider the impact of various levels of parity on accomplishing this objective. You do recognize that a Congressional Budget Office Report (1979) focused on this issue, but you fail to mention the result of that analysis. Such an omission is glaring as the CBO report concludes that:

> "Eighty percent parity support for milk offers price stability and will not cause any major changes in current conditions for dairy farmers, consumers, or taxpayers."

This is in contrast to 75 percent of parity, which although it offers "lower consumer prices and taxpayer costs, nevertheless at this support level incomes of dairy farmers would fall, and price instability is more likely to occur than at 80 percent of parity support prices."

GAO EVALUATION

We did not evaluate the impact of various levels of parity. This issue was the major focus of the March 1979 CBO report. We might add that some agricultural economists, farmers, and various farm and community support groups have contended that social and national welfare factors should be considered in farm program decisions such as the setting of parity level prices. However, it was also not the purpose of this report to evaluate those factors.

We made this study to evaluate the strengths and weaknesses of existing Federal programs and the consequences of possible new programs for controlling or minimizing surpluses. We found that the parity price formula, the standard for the dairy price-support program, does not adequately consider the costs of producing milk nor productivity increases, and includes some cost factors not related to milk production. These conditions would exist regardless of the parity levels. The price-support levels have promoted more than adequate milk supplies and enhanced producer returns to levels more than adequate to maintain productive capacity.

COMMENT

Surpluses--A presumption is made throughout the report that surpluses are an indication that the program is not working. The title of the report itself leads one to such a conclusion, "Alternatives to Reduce Dairy Surpluses." Furthermore, the cover page, which you signed has a statement that "the program is not performing as it should as has been evidenced in recent years by heavy Government purchases at high costs." The report fails to analyze the true costs and benefits to the Government, even though you do recognize that some of the product is sold back through commercial channels. For example, how much of the product needs to be purchased for carryover to peak season demand. What impact does a 105 percent sell back have during periods of high inflation rates. Some claim that a CCC policy of selling product back to commercial channels at 105 percent of the purchase price during periods of high inflation rates causes excessive purchases of dairy stocks, because it is cheaper for the Government to store products than private industry.

GAO EVALUATION

We did not perform a detailed analysis of the costs and benefits of the program to the Government. However, there were other indicators that the program is not performing as it should. Our report clearly recognizes that the support for milk is provided through purchases of dairy products and recognizes that some purchases are necessary. This is evidenced by our recommendation to require the Secretary to adjust the milk support price if CCC net removals exceed levels established by the Secretary. In so doing, the Secretary would, in effect, be defining excessive purchases.

However, Government purchases of surplus dairy products have at times been burdensome. In addition, these purchases sometimes occurred even in the colder months when milk production is generally at the lowest level in relation to demand. For example, Government purchases of dairy products, in milk equivalent, in October, November, and December 1979 was 211 million, 240 million, and 358 million pounds, respectively.

Traditional Government outlets to dispose of surplus dairy products have largely disappeared. Until recent years, the Government relied heavily on domestic and foreign aid programs to dispose of burdensome surpluses. However, funds available for foreign donations have been reduced and the domestic commodity distribution programs have been largely replaced with the Food Stamp Program. According to the Agricultural Marketing Service, the recent broadening of the Food Stamp Program and the phase-out of direct distribution of food to welfare recipients have greatly reduced the Government's ability to dispose of dairy surpluses.

The preferred practice for disposing of surpluses is to sell products for human consumption back to industry at 105 percent of the purchase price. The 105-percent provision also helps stabilize prices by moderating price increases. CCC also sells products back to the industry at less than the purchase price for use as animal feed. For example, during marketing year 1977-78, CCC purchased 338.9 million pounds of nonfat dry milk. During 1978, 48.1 million pounds were sold back to the industry for use as animal feed at about half the procurement cost.

COMMENT

Consumer Costs--The report assumes, page 5, that higher support prices increase consumer costs through higher prices for dairy products. An assumption is made from that statement that this is by itself bad and yet a more thorough evaluation might reveal that producer costs are also increasing. For example, a recently released summary by the Springfield, Massachusetts Farm Credit Bank of 332 dairy farms located throughtout New England shows that "...the price farmers receive for their milk has increased just enough each year (73 - 79) to keep up with the inflation of expenses." Information from the Wisconsin Department of Agriculture also suggests that farmer expenses are increasing as rapidly as prices received. Furthermore, the GAO Report fails to consider the possible consumer cost consequences of any policy which could lead to a reduction in farm and cow numbers. It is generally understood that instability could lead to violent swings in production and hence much higher consumer costs. What would be the retail cost to the consumer as the result of the various alternatives you suggest? We know that under the existing program, the price of dairy products have increased much slower than other food items. A review of the 1973-74 period will reveal that supports were decreased while increased importation of product was allowed. As a result, domestic production decreased and eventually consumer cost of product increased significantly.

GAO EVALUATION

Our report states that higher support prices also increase consumer costs through higher prices for dairy products. We did not assume, however, that this itself was bad. Increases in the milk support price require higher CCC purchase prices for dairy products. Higher purchase prices result in higher market prices for dairy products received by manufacturers and prevent the average farm-level price for milk from falling below the support level.

Although retail prices of dairy products have increased more slowly than the average prices for all food, they have increased significantly. From 1975 to 1979, for example, while the Bureau of Labor Statistics' Consumer Price Index increased 56 points and its all-food index increased 59 points, the retail dairy price increased 51 points. Within the dairy category, however, the increases varied. For example, the fluid milk price index increased 39 points between 1975 and 1979, while the butter price index increased 79 points.

Our comparision of the cost of producing milk with the support price showed that the weighted average support price had increased faster than the weighted average production cost. In fact, in 1977 and 1978 the production cost decreased while the support price increased.

Our analysis of alternative dairy price-support standards indicated that, in general, a support price based on either a dairy parity price or cost-of production standard should reduce consumer and taxpayer costs and CCC purchases of surplus dairy products. While producer returns would probably also be reduced, the dairy parity support price should still allow producers a good return over direct production costs. For example, USDA projected that in 1979 the direct costs to produce a hundredweight of milk would be about $7.20. Thus, a dairy parity support price of $10.51, as compared to 11.49 under the current system, would have allowed producers a return of about $3.31 per hundredweight for labor, management, and risks.

Our analysis was generally based on national weighted average cost and price data developed by USDA. In using USDA's cost of production estimates, we recognized that production costs vary widely over time, from farm to farm, and across States and regions. Variability among farms is due to many factors, such as differences in production per cow, climate, management skills of individual producers, and herd size. We did not evaluate the economic and social impacts of such differences. Nevertheless, the estimated averages represent general changes in milk production costs from one year to another and are analogous to cost estimates which influence or determine support levels of the major field crops.

Further, our review of the 1973-74 period showed that the dramatic increase in feed costs (which represent about 50 percent of total production costs) during 1973 and part of 1974 was not adequately reflected in parity computations, and the support price increased slowly. During these years, dairy feed prices rose to about 78 percent more than 1972 prices, but the milk support price increased only about 33 percent. As a result, milk producers used less feed and domestic production declined, while imports were allowed to increase. However, by mid-1974 CCC had to resume buying milk surpluses.

COMMENTS

Questionnaire Sample--On page i, of the report, you state that "the dairy price-support program is considered by many to be the principal cause of surpluses." You obviously did not choose your respondents in any scientific sampling manner. Although those who responded are knowledgeable, each respondent does have a bias which colors the conclusions reached. Furthermore, many is too inclusive. There are many who also feel that the program is not itself the major reason for surpluses and who do not consider surpluses to be in themselves bad.

GAO EVALUATION

As our report indicates, we did not select those to whom we sent questionnaires in any scientific sampling manner. To our knowledge, no data base exists for such a selection. As an alternative, our consultant who has extensive experience with dairy marketing and policy matters, and deals extensively with people knowledgeable in these areas, suggested the names of individuals who represented various facets of the dairy industry and who also represented various viewpoints in an attempt to get a good cross section of views.

We recognize that anyone may be biased based on their individual views or those of the industry segment they represent. In our report we state that over 60 percent of the questionnaire respondents indicated that the price-support program caused surpluses to a great or moderate extent. We also stated that for the most part the respondents represented the academic and proprietary groups.

Respondents from the dairy cooperatives and producer associations, which have traditionally favored high price supports, generally viewed the price-support system as causing surpluses to some or a little extent. USDA's Agricultural Marketing Service, which also responded to our questionnaire, pointed out that the price support program is the primary factor affecting surplus. In addition, many respondents also viewed declining per capita consumption of dairy products and disappearing disposal outlets as contributing to surpluses.

COMMENT

Alternatives to Existing Programs--You mention a number of alternatives which might be considered but fail to fully analyze what the ramifications would be if such alternatives were adopted. For example, you suggest that different weights should be used in the parity formula but fail to specify what those weights should be.

GAO EVALUATION

Our report discusses the following alternatives to the parity price standard currently used to determine the support level:

Dairy parity price standard

Cost of production standard

Comprehensive formula standard

We believe that our analysis of these alternatives adequately evaluated the impacts if such alternatives were adopted. In addition, our analysis of the dairy parity price standard (see pp. 33 and 34 of the report) does identify both the factors and weights we used in computing what the support price would be under this method. We also recognize, however, that if a dairy parity price standard is adopted, the Secretary should have the final determination of the factors and weights to be used.

The cost of production standard does not use factors and weights, but instead is computed on the basis of nationwide average dairy production costs. Increases or decreases of such costs would be reflected in the support price. The comprehensive formula standard would use factors and weights but, as the report recognizes, it is not possible at this time to indicate what they should be. We believe that the research we recommend in this area would result in a determination of the factors and weights that should be used.

Our report also discusses other alternatives available for reducing surpluses including

--producer participation in dairy promotion programs;

--production controls, such as producer quotas and penalties; and

--new concepts, such as target prices and deficiency payments, a national milk-marketing order program, and deregulation of the industry.

SUMMARY COMMENTS AND GAO EVALUATION

In summary, we feel that your proposed report would be of very little value to the Subcommittee in drafting new dairy legislation because:

--It refuses to discuss side benefits of the program such as foreign (P.L. 480) and domestic food programs, military uses, special milk program, etc.

GAO evaluation: See our evaluation on "Surpluses" comment.

--It includes no discussion of the impact of import policy and the impact of cheese and casein imports.

GAO evaluation: See our evaluation on "Trade Policy" comment.

--It ignores the proliferation of imitation dairy products and thereby gives us no insight on how they will affect the program.

GAO evaluation: In the report chapter on "Producer Participation In Promotion Programs Should Be Increased," (see page 61), we recognize that dairy products face strong competition not only from imitation dairy products but also from other products. For example, margarine competes with butter; soft drinks, coffee, beer, and other non-dairy beverages compete with milk; and imitation cheese competes with natural cheese.

Currently, not all producers are contributing to programs designed to promote demand for their products. We believe that if the Government continues to support the price of milk and guarantee a market for surplus dairy products, the producers should be expected to finance the promotion of their products to attempt to offset the effects of competition from other products.

--While it purports to discuss farm income, it does so only in comparison to the income of other commodities, which have been at all time lows in comparison to costs of production.

GAO evaluation: Our report, (see pp. 18-20) points out that, in recent years, producer returns have been more than adequate to maintain productive capacity sufficient to assure an adequate supply of milk. Farm dairy prices have increased faster than the average prices for all farm products. In addition, we found that dairy farm cash receipts are at a record level ($14.7 billion in 1979) and producer returns have increased faster than inflation.

--It does not discuss the history of dairy product retail prices as compared to retail prices of other foods, products, and services, thereby possibly ignoring a major benefit of the program.

GAO evaluation: See our evaluation on "Consumer Costs" comment.

--It ignores the influences of other commodity supply and pricing.

GAO evaluation: Feed costs make up the largest component of both direct and total costs to produce milk. They accounted for 74 and 71 percent of direct costs in 1977 and 1978, respectively. They also accounted for 52.3 and 50.2 percent of total production costs in 1977 and 1978, respectively. Feed costs decreased from $5.07 per hundredweight of milk in 1977 to $4.78 in 1978. Also, see our evaluation on "Consumer Costs" comment which discusses the effects of increased feed costs during 1973-74.

--The alternatives discussed are not inclusive nor are they meaningful. The dairy parity standard proposal is a glorified cost of production standard which could be accomplished by re-weighing the components in the parity index. The cost of production standard is based on a $10 per hundredweights cost of production when USDA's latest figures are $10.50 in 1979 and $11.33 for 1980. The comprehensive formula standard is useless since "sufficient reseach has not been done to design and implement a comprehensive formula." (Digest to "Alternatives to Dairy Surpluses," p. iii).

GAO Evaluation: We disagree that the dairy parity price alternative is a glorified cost of production standard which could be accomplished by re-weighing the components in the parity index. We did, however, use USDA's cost of production study to identify the dairy components and weights in computing the estimated support price based on the dairy parity price. In computing this support price, we used the current parity price formula, except that the indexes which USDA currently assembles and uses to compute the parity price were adjusted to reflect only the prices received for dairy products and the prices paid for items used in producing milk. The methodology we used in estimating the support price based on the dairy parity price standard is explained more fully on page 33 of our report.

Our estimated cost-of-production support price ($10 for the 1979-80 marketing year) is based on a 2-year moving average of production costs and should not be compared to USDA's annual estimated production cost. In addition, USDA's cost estimates are on a calendar year basis while our support price estimates are on a marketing year basis. (See p. 37.) USDA's latest cost-of-production study, issued July 1980, was not available at the time we computed the support price based on a cost-of-production standard.

We believe a comprehensive formula holds the potential for developing a price-support adjustor that would consider both supply and demand factors affecting the dairy industry. If properly developed, a comprehensive formula would represent a distinct improvement over the current parity, dairy parity, or cost-of-production approaches to establishing the milk support price in that both supply and demand factors would be considered. Also, such a formula could automatically adjust the support price without subjective influences. Therefore, we are recommending that the Congress, if it adopts the approach outlined on page 48, enact legislation directing the Secretary to perform necessary research to develop and, if appropriate, implement a comprehensive formula.

--There is no discussion of the "flexible" parity formulas which have recently gained the most attention from USDA, the industry and the committee.

GAO evaluation: Our report discusses in detail (see pp. 23-27) the need to provide the Secretary of Agriculture flexibility to set and adjust the price-support level. We recommend on p. 28 of our report that if the Congress decides to keep the current parity price standard, it require the Secretary to adjust the price-support level if the 12-month moving total of CCC net removals of dairy products exceeds trigger levels established by the Secretary.

In May 1980, USDA evaluated three alternatives which would provide the Secretary flexibility to deal with the surplus problem. The first alternative would tie minimum price supports to CCC net removals. For example, when removals reach 5 million pounds, the price support would be set at 75 percent of parity; when removals reach 2.5 million pounds, they would be set at 80 percent. In between these two removal levels, the support price would be based on an incremental schedule. The second alternative would specify percentage ranges of parity based on CCC net removals compared to annual marketings of dairy products. For example, when removals are 3 percent or less of marketings, the price support would be set at 80 to 90 percent of parity; when removals are 5 percent or more of marketings, the price supports would be set at 75 percent of parity. In between these percentage ranges, the Secretary would have flexibility to set the price support level between 75 and 80 percent of parity. The third alternative would give the Secretary authority to set milk price supports between 75 percent and 80 percent or parity without additional constraints.

USDA's evaluation of these alternatives was not completed until after our study was finished and our draft report had been reviewed by USDA. Thus, we did not evaluate them in detail or include them in our final report. However, under all three alternatives the support price would be based on the current parity price standard. Our report points out that the parity price standard has not effectively accomplished the program's objectives. (See our evaluation on "Parity Levels" comment).

U.S. House of Representatives
Committee on Agriculture
Washington, D.C. 20515

August 1, 1980

Honorable Elmer Staats
Comptroller General of the U.S.
Room 7000, GAO Building
441 G Street, N. W.
Washington, D. C. 20548

Dear Elmer:

Thank you for responding to our request that the GAO Report, "Alternatives to Reduce Dairy Surpluses," CED-80-88, not be released until your agency can respond to what we believe are deficiencies in the report. It is unfortunate that GAO study personnel did not consult with appropriate committee staff during the course of the study so that such omissions or errors could have been corrected in advance of publication.

As an audit arm of Congress, GAO can and should examine governmental programs. However, such examinations must be detailed, complete, and as objective as possible. We would like to help you perform that valuable function. However, we are concerned that the report does not live up to the usual standards of your agency. The report, as it stands, will be criticized by many for its inadequacies. We would like to see your agency make a positive contribution toward influencing dairy policy and thus offer the following comments:

1. Trade Policy--The study fails to consider the influence of trade policies on the price support program, although it is generally recognized that such policies are leading to excess availability of dairy stocks in government hands. As a result of international trade agreements, the U.S. is absorbing additional cheese imports. During the last calendar year, imports were somewhat greater than actual CCC purchases. Specifically, the U.S. during 1979 imported the equivalent of 2.3 billion pounds of milk, and at the same time, CCC purchases amounted to 2.1 billion pounds on a milk equivalent basis. In addition, casein imports of 150 million pounds per year are displacing over 400 million pounds of domestically produced nonfat dry milk.

2. Parity Levels--The report discusses the need to balance supply and demand but fails to consider the impact of various levels of parity on accomplishing this objective. You do recognize that a Congressional Budget Office Report (1979) focused on this issue, but you fail to mention the result of that analysis. Such an omission is glaring as the CBO report concludes that:

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> "80 percent parity support for milk offers price stability and will not cause any major changes in current conditions for dairy farmers, consumers, or taxpayers."

This is in contrast to 75 percent of parity, which although it offers

> "lower consumer prices and taxpayer costs, nevertheless at this support level incomes of dairy farmers would fall, and price instability is more likely to occur than at 80 percent of parity support prices."

3. Surpluses--A presumption is made throughtout the report that surpluses are an indication that the program is not working. The title of the report itself leads one to such a conclusion, "Alternatives to Reduce Dairy Surpluses." Furthermore, the cover page, which you signed has a statement that"...the program is not performing as it should, as has been evidenced in recent years by heavy Government purchases at high costs." The report fails to analyze the true costs and benefits to the Government, even though you do recognize that some of the product is sold back through commercial channels. For example, how much of the product needs to be purchased for carryover to peak season demand. What impact does a 105 percent sell back have during periods of high inflation rates. Some claim that a CCC policy of selling product back to commercial channels at 105 percent of the purchase price during periods of high inflation rates causes excessive purchases of dairy stocks, because it is cheaper for the government to store products than private industry.

4. Consumer Costs--The report assumes, page 5, that higher support prices increase consumer costs through higher prices for dairy products. An assumption is made from that statement that this is by itself bad and yet a move through evaluation might reveal that producer costs are also increasing. For example, a recently released summary by the Springfield, Massachusetts Farm Credit Bank of 332 dairy farms located throughout New England shows that "...the price farmers receive for their milk has increased just enough each year (73 - 79) to keep up with the inflation of expenses." Information from the Wisconsin Department of Agriculture also suggests that farmer expenses are increasing as rapidly as prices received. Furthermore, the GAO Report fails to consider the possible consumer cost consequences of any policy which could lead to a reduction in farm and cow numbers. It is generally understood that instability could lead to violent swings in production and hence much higher consumer costs. What would be the retail cost to the consumer as the result of the various alternatives you suggest? We know that under the existing program, the price of dairy products have increased much slower than other food items. A review of the 1973-74 period will reveal that supports were decreased while increased importation of product was allowed. As a result, domestic production decreased and eventually consumer cost of product increased significantly.

5. Questionnaire Sample--On page i, of the report, you state that "the dairy price-support program is considered by <u>many</u> to be the principal cause of surpluses." You obviously did not choose your respondents in any scientific

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August 1, 1980
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sampling manner. Although those who responded are knowledgable, each respondent does have a bias which colors the conclusions reached. Furthermore, many is too inclusive. There are many who also feel that the program is not itself the major reason for surpluses and who do not consider surpluses to be in themselves bad.

6. Alternatives to Existing Programs--You mention a number of alternatives which might be considered but fail to fully analyze what the ramifications would be if such alternatives were adopted. For example, you suggest that different weights should be used in the parity formula but fail to specify what those weights should be.

In summary, we feel that your proposed report would be of very little value to the Subcommittee in drafting new dairy legislation because:

-- It refuses to discuss side benefits of the program such as foreign (P.L. 480) and domestic food programs, military uses, special milk program, etc.

-- It includes no discussion of the impact of import policy and the impact of cheese and casein imports.

-- It ignores the proliferation of imitation dairy products and thereby gives us no insight on how they will affect the program.

-- While it purports to discuss farm income, it does so only in comparison to the income of other commodities, which have been at all time lows in comparison to costs of production.

-- It does not discuss the history of dairy product retail prices as compared to retail prices of other foods, products, and services, thereby possibly ignoring a major benefit of the program.

-- It ignores the influences of other commodity supply and pricing.

-- The alternatives discussed are not inclusive nor are they meaningful. The dairy parity standard proposal is a glorified cost of production standard which could be accomplished by re-weighing the components in the parity index. The cost of production standard is based on a $10.00 per hundredweights cost of production when USDA's latest figures are $10.50 in 1979 and $11.33 for 1980. The comprehensive formula standard is useless since "sufficient research has not been done to design and implement a comprehensive formula." (Digest to "Alternatives to Dairy Surpluses," p. iii).

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August 1, 1980
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-- There is no discussion of the "flexible" parity formulas which have recently gained the most attention from USDA, the industry and the committee.

I hope you will take our comments constructively. We have attempted to do an objective examination so that a redrafted report might help us in establishing dairy policy to benefit both producers and consumers.

Sincerely,

James M. Jeffords
Ranking Minority Member
Dairy & Poultry Subcommittee

Alvin Baldus, Chairman
Dairy and Poultry Subcommittee

JMJ:AB:m