



The development of a hypothetical federal milk marketing order for the Great Falls-Hi-Line Area and a comparison of this order with the Montana Milk Control Law in its present state of effectiveness  
by John George Litschauer

A thesis submitted to the Graduate Faculty in partial fulfillment of the requirements for the degree of  
MASTER OF SCIENCE in Agricultural Economics  
Montana State University  
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**Abstract:**

This study is an attempt to set up a hypothetical Federal milk marketing order for the Great Falls-Hi-Line Area and to compare the Federal order with the present Montana Milk Control Law.

The Montana milk industry is characterized by many producers, few distributors, and many consumers. Thus., the industry structure would tend to be oligopsonistic and oligopolistic in nature. As a result, the Montana Milk Control Law was developed to direct the "performance" of the state milk industry. However, there are still "performance" problems present under the state law. A Federal milk marketing order is one possible solution to these problems.

The data used to develop the hypothetical Federal order in this study was obtained from records in the Montana Milk Control Board Office in Helena, Montana from personal interviews, and from Federal orders already in existence. The hypothetical Federal order is similar in structure to other orders, however, it is set up to answer the economic problems present in the study area. The Great Falls-Hi-Line Area was selected for this study because: (1) Producers in this area have indicated an interest in obtaining a Federal order, and (2) this area gives a good cross section of milk industry problems in existence throughout, the state.

The comparison analysis between the two alternative types of milk policy, is made primarily with an efficiency norm. The differences between the two types of policy are pointed out, and a comparison is made on how well each would answer problems present in the study area. A theoretical comparison is also made on the price control portions of each policy.

The results of this comparison shows that the hypothetical Federal order would be more efficient than the present Montana Milk Control Law.

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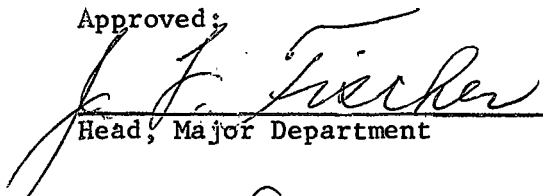
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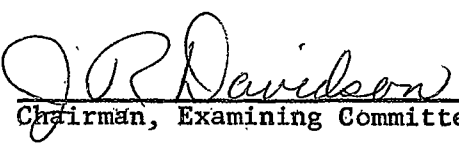
MASTER OF SCIENCE


in

Agricultural Economics

Approved:

  
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MONTANA STATE COLLEGE  
Bozeman, Montana

August, 1963

ACKNOWLEDGMENTS

The author wishes to express his appreciation to the staff and fellow graduate students for their assistance. Special thanks are extended to Dr. Jack Davidson, Dr. E. H. Ward, and Mr. Maurice Taylor for their guidance and encouragement.

The Montana Milk Control Board personnel have been especially helpful and cooperative in obtaining data used herein.

Of course, any errors or omissions in this study are the responsibility of the author.

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## ABSTRACT

This study is an attempt to set up a hypothetical Federal milk marketing order for the Great Falls-Hi-Line Area and to compare the Federal order with the present Montana Milk Control Law.

The Montana milk industry is characterized by many producers, few distributors, and many consumers. Thus, the industry structure would tend to be oligopsonistic and oligopolistic in nature. As a result, the Montana Milk Control Law was developed to direct the "performance" of the state milk industry. However, there are still "performance" problems present under the state law. A Federal milk marketing order is one possible solution to these problems.

The data used to develop the hypothetical Federal order in this study was obtained from records in the Montana Milk Control Board Office in Helena, Montana from personal interviews, and from Federal orders already in existence. The hypothetical Federal order is similar in structure to other orders, however, it is set up to answer the economic problems present in the study area. The Great Falls-Hi-Line Area was selected for this study because: (1) Producers in this area have indicated an interest in obtaining a Federal order, and (2) this area gives a good cross section of milk industry problems in existence throughout the state.

The comparison analysis between the two alternative types of milk policy is made primarily with an efficiency norm. The differences between the two types of policy are pointed out, and a comparison is made on how well each would answer problems present in the study area. A theoretical comparison is also made on the price control portions of each policy.

The results of this comparison shows that the hypothetical Federal order would be more efficient than the present Montana Milk Control Law.

## CHAPTER I

### INTRODUCTION

#### The Problem Area

##### Market Performance and the Montana Dairy Industry

The course and character of economic activity in the United States are determined primarily by the actions of the multitude of privately owned and managed business enterprises. A leading economist has suggested that the performance of these enterprises determines to a large extent how well the economy performs.<sup>1/</sup>

Business enterprise performance has been illustrated as having three dimensions. These include:

1. "The performance of enterprises as buyers in the markets for the basic factor of production: Labor and natural resources.

2. "The 'internal' performance of enterprises in organizing productive facilities, managing their use and that of materials and labor, choosing effective technique and methods of production, managing finances, and so forth.

3. "The performance of business enterprises with relation to the markets for goods and services which they produce or use in determining outputs, prices, product designs, selling costs, and a number of related things-- in a word, the complex of adjustments enterprises make, in view of conditions of demand and supply, to the commodity markets in which they are active."<sup>2/</sup>

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<sup>1/</sup> Joe S. Bain, Industrial Organization, New York, New York, John Wiley and Sons, Inc., 1959.

<sup>2/</sup> Ibid., p. 2.

Furthermore, the two main determinants of the market performance of industry are as follows:

1. "The organization or structure of a group or industry of competing enterprises is widely thought to have a strong conditioning or determining influence on the performance of the group.

2. "The market conduct of enterprises, embracing the practices, policies, and devices which they employ in arriving at adjustments to the markets in which they participate likewise influences performance."<sup>1/</sup>

This line of reasoning would apply in appraising the adequacy of the economic system in a particular area as well as for the nation. The success of the economy of Montana as a whole, according to this theory, is directly influenced by the performance of all business enterprises located within the state. In this thesis attention is focused on the milk industry in Montana and the present Montana Milk Control Law, which has as an explicit goal, promotion of industry performance.

#### Market Structure and Conduct of the Montana Dairy Industry

Montana is not basically a dairy state. Dairy farm income is small relative to some agricultural commodities, (less than 3 percent of all agricultural income in the state is derived from dairy products).<sup>2/</sup> However, it is still an important segment of the state's agriculture. Actually, the 1961 total dairy product sales in the state were approximately 312 million pounds of milk (see Table I).

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<sup>1/</sup> Ibid., p. 3.

<sup>2/</sup> Edward H. Ward, A Formula for Montana Milk, Montana Agricultural Experiment Station, Bulletin 569, Montana State College, Bozeman, Montana, p. 3.

TABLE I. TOTAL MILK SALES FOR MONTANA IN 1961.\*

| Item   | Sales         |                |
|--|---------------|----------------|
|  | Million lbs.  |                |
| Total Class I and II Sales                             |               | 174.510        |
| Class I Creamery Sales                                 | 53.441        |                |
| Manufactured Milk Processing Plant Sales <sup>a/</sup> | <u>84.329</u> |                |
| Total Class III and IV Sales                           |               | <u>137.470</u> |
| Total Sales  |               | <u>311.980</u> |

\* Source: The Montana Milk Control Office, Helena, Montana.

<sup>a/</sup> The manufacturing milk processing sales were converted from the total products sold to the total pounds of milk sold in 1961 through the use of conversion formulas. These formulas are shown in Appendix A and were arrived at with the aid of personnel working in the Montana Milk Control Office in Helena, Montana.

Originally, fluid milk markets were almost entirely local. However, with the advent of new technology (i.e., refrigeration, better transportation, etc.), the milk markets in Montana developed their present structure. This structure is characterized by a comparatively large number of producers, few distributors (enterprises), and many consumers.

The trend has been for individual distributors to increase in size in order to take advantage of internal economies of scale offered by new plant technology. In addition, better transportation and better refrigeration methods have made it possible to extend the sales areas of the individual distributors (see Appendix D).

The trend has also been toward larger producers. However, despite this general growth in producers' size, they still remain much too small to bargain effectively as individuals over price conditions of sale, etc.<sup>1/</sup>

The consumer phase of the milk market has remained much the same as in the past. Although the consumer demand for low fat milk products has probably increased relative to his demand for high fat milk products, he still has little price bargaining for these products. Thus, it is the author's contention that the distributor holds an advantage over the

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<sup>1/</sup> In the past, milk producers have tried to organize in order to gain a better price bargaining position for their product. However, the success of these producer organizations has tended to be less than spectacular. For one thing, a producer is required to make a high initial investment to become a Class I (fluid milk) producer. Operating efficiency and higher-than-ever sanitary requirements are the reasons for this high cost. There is often no alternative milk market should the distributor refuse to accept the producer's milk and no ready market for the sale of this equipment since the distributor can designate the producers he wishes to buy from. It is readily understandable, therefore, why the producer is careful not to antagonize his distributor. Such action may mean loss of Class I market and ultimately loss of his capital investment.

In addition to this, the movement of milk, both bulk and packaged, between cities within the state (see Figure 1) has increased. In fact, certain areas within the state are receiving milk from other states and vice versa (see Figure 2). Thus, the distributor has increased alternative sources of supply which tend to lower the producer's bargaining power.

# MONTANA



Figure 1. Movement of Fluid Milk Within Montana in 1961.\*

\* Source: The Montana Milk Control Office, Helena, Montana.

























































































































































































































































































