THE search for "better" methods for pricing milk has been going on for a long time. The current crop of "experts" are unlikely to find the method except possibly in terms of the present situation. Five and ten years from now the environment in which milk prices function will be different and at least the details of pricing techniques will need to be changed.

Most economists and probably most producers and distributors have concluded that market place prices like those we have for grains and livestock cannot be made to work for fluid milk because of the nature of the product and the health regulations surrounding its production and distribution. At one time bargaining between producer leaders and the distributors appeared to be the perfect substitute for market place prices. Bargaining was done by those most intimately acquainted with the local effects of price making forces. All too often, however, the bargaining parties used only that part of their knowledge which would help them as farmers to get higher prices or as buyers to justify lower prices. Combined with honest differences of interpretation, this attitude of self-protection led to repeated failures of bargaining. The result frequently was arbitration by an impartial third party.

Public hearings with government taking over the arbitrator's position were only a short step from bargaining conferences. Hearings preserved the theoretical advantages of bargaining, namely, the introduction of evidence by those closest to the local situation and the opportunity to give consideration to all of the price making forces. But the legal formality of hearings plus frequent window dressing by witnesses for the benefit of their customers has detracted seriously from the so called advantages provided by public hearings. Even more important, the protracted delays incidental to using government as the arbitrator has made public hearings inefficient as the sole means of establishing prices.

More recently, Class I formulas have been devised and used. Until the adoption of the Boston formula this year, all Class I

---

formulas in federal order markets had been based on the price of some one or combination of manufactured dairy products. The use of such prices, at least in mid-western markets, has been based largely on the direct competition between the fluid market and manufactured products for the milk supply. The result of this competition was a direct relationship between the price of the manufactured product and the price of milk in the fluid market. The Class I price was arrived at by adding a charge for transportation and a premium for meeting sanitary requirements to the actual or approximate price paid by manufacturing plants. The determination of a proper premium was the major problem in arriving at the Class I price.

In eastern markets the use of formulas based on manufactured dairy products was accompanied by greater difficulties, very largely because supplies of milk for manufacturing were less important and more scattered than in the midwest. The problem of determining a proper transportation allowance was difficult and the concept itself lacked complete validity. The logic of using manufacturing values because of direct competition for supplies had to be bolstered by the theory that changes in prices of manufactured products measured changes in the underlying supply and demand conditions affecting the whole of the milk industry. In the Northeast, with but little milk at present being produced in excess of that needed to meet fluid milk requirements—except for seasonal surpluses—Class I formulas based on prices of manufactured dairy products appear to have lost their usefulness.

Class I formulas are needed in federal order markets primarily in order to bring about promptness of price changes. Manufactured dairy products formulas have filled this need in many markets and in addition have performed another useful function of determining the level of prices even over considerable periods of time. Incidentally, they also took a lot of responsibility off the shoulders of producer leaders, handlers and government.

In developing a Class I formula the Boston Committee naturally tried to find some combination of factors that would function in the east as manufacturing values had in the mid-west, something that would dictate the level of the price as well as move it promptly. The relatively new type of formula the Committee developed uses several series of data in combination to reflect variations in the demand for and supply of milk. To date there has been no demonstra-
tion of a precise relationship over long periods of time between an adequate Class I price and indexes of any of the many series of data that might be used to reflect changes in demand and supply. Nor is it logical to expect a precise relationship to endure through inflation, deflation and technological change. When first proposed, the four series in the Boston formula were 53, 74, 98 and 104 percent above their respective 1925–1929 averages. With very little scientific basis for weighting, it seems illogical to assume that a combination of these four factors will give the correct percentage change in the price of Class I milk since 1925–1929. I doubt whether this new type of formula, regardless of the factors it contains, can be used as a determiner of the proper level of prices over more than a brief period of time.

The basic idea which led to the selection of factors in the Boston formula undoubtedly will be copied by the Philadelphia Committee in whatever formula it recommends. The economic series used to reflect general economic conditions and changes in demand and supply peculiar to fluid milk, however, are unlikely to be the same ones, in all instances at least, as those used in Boston.

The Philadelphia Committee hopes to be able to work out a plan which will use regularly scheduled hearings to determine the level of prices plus a formula to change prices between hearings and to indicate the level of the price to be examined at the hearings. In this manner the Committee hopes to combine the advantages of both hearings and a formula. By using the indicated formula price as a proposal at each hearing it is hoped to cause the presentation of more adequate and related evidence and thus strengthen the functioning of the hearing process.

I have mentioned the lack of precise relationships between the Class I price and the various reflectors of supply and demand as one reason why hearings are needed to determine the level of the price in relation to the formula factors and then to examine periodically the adequacy of the formula price. There are other reasons. No formula of the Boston type will ever contain reflectors of all of the price making forces, and even if one does, the various reflectors will not be perfectly weighted. Furthermore, the relative importance of price making forces will change from time to time.

The Philadelphia Committee expects to recommend that price changes between hearings occur only as a result of major changes in the formula values. For example, if the price is set by the hearing
at $6.00 when the formula index is 100 the price will not change until the formula moves by an amount equal to a change of twenty cents in the Class I price. Following the first such change after a price hearing, the price will not move again either in the same or reverse direction unless a similar major movement occurs in the formula value. The need for a price change, at least when the bracket system is used, is not indicated by the fact that a formula index reaches either 105, 110, or any other particular point but rather by the fact that a particular amount of movement has occurred. It is not where the formula index is but how much it has changed that is important.

A partial list of reasons why pricing methods should be expected to vary from one market to another would include differences in health regulations, in types of farming, in seasonality of production, in the leadership of producers' cooperative organizations and in the availability of unapproved milk supplies. Because of these differences, the Philadelphia Committee will make no claim of recommending the one and only method for pricing Class I milk. From my viewpoint the method used to price milk in Boston, and the methods which will be recommended by Committees in other markets are in the nature of experiments. One reason why I recalled a brief history of price determining methods was to indicate that such experiments have been made before and will need to be made in the future if pricing methods are to keep up with changing conditions.