Interview: Gregory D. Blaska

Parity pricing for dairy farming 'built a beautiful industry'

Gregory D. Blaska is a Wisconsin dairy farmer and a longtime national leader in agriculture policy, serving most recently on the board of directors of the National Dairy Board. Marcia Merry Baker interviewed him on July 22.

EIR: The U.S. dairy farmers are being underpaid, and the prices of retail dairy products are high.

Blaska: The relative economic imbalance of the dairy producers with the economy is, I think, our problem. We need to find a way that we can get to a parity program for the dairy farmers. The problem came in 1980, when, after nearly 40 years of growth, the dairy industry was removed from the parity system of pricing, in favor of what I call a "free world market" pricing system, that offered no protection, or very little protection, for the American dairy industry. So, since 1980, we've lagged along, with our total cost of milk production continuing to go up and up, and the return from the market lagging, so that what's happening in the whole eastern part of the United States, and the Midwest, and now continuing in parts of the Southwest, is that the dairy farmers are reducing their production. The largest-populated part of the United States is the East-Southeast, and the South—and including some of the Midwest. So, we're having to lean more and more on production from the Far West to give us a supply of milk that is adequate. And this is especially noticed in the Southeast, where milk production is very low, and the population continues to grow, including Florida, so that milk has to be moved from another source most of the year, to supply the Florida market.

At times now, it is difficult to find the milk that is of a quality that can be used for bottling. So the Florida people are sometimes suffering shortages in the marketplace for fluid milk. And that trend seems to continue on, until we find new ways of pricing milk to the producers, so that they can produce an adequate supply. I think the answer lies in a fair regulation of the Federal Order System that is under review now.

The Congress, in the last farm bill, ordered the secretary of agriculture to reform the Federal Order System. However, to do that in a fair way, has to come back to a system of pricing milk that is hinged somewhat to the cost of production, and that's where we seem to have the problem with our leadership not recognizing what the farmers go through to produce Grade A milk—and we're not producing that Grade A milk on a free market, by a long shot. We have to have input items, including our labor, which is hinged to a minimum cost of labor, or a unionized cost, whichever prevails. We're competing with the products made from that kind of labor, including our tractors and all our equipment, which we have to buy. And we're also now affected by the increasing price of the grains and forages, which are in demand by foreign countries which are short of food. They are bidding up the price of the corn and the feed grains, and our dairy farmers now have to compete with that cost.

So, our cost has to be hinged to what it costs to produce the milk. And we just have not had the leadership yet—that includes both in the industry, and in Congress—to signal that we need to take that one step. In fact, the Canadian dairy farmers did. And the European dairy farmers, who have had more response from their government people, and they're much more comfortable in producing milk.

EIR: What about the regional shortages in the United States? The national media are not reporting any of this. Do you foresee, when school starts in September, shortages of fresh fluid milk, for example in the Southeast, as we have seen in past years?

Blaska: Yes. That's been building up over a period of years: the need to move milk to the Southeast during the summer and fall months, especially when school starts. And I'm sure that it will be the same in 1997, that Florida will have to import 3-4,000 semi-truckloads of milk in order to have an adequate supply. It's getting more difficult to reach that, because the milk supplies are moving west, at a very rapid rate, beyond Texas into New Mexico, Arizona, Idaho, and also some of the other Mountain States; the State of Washington and California continue to produce adequate and surplus amounts of milk. The milk is out of reach of the Eastern part of the United States for fluid use.

EIR: What about some of the state-level initiatives—the Southern States Compact, and the Northeast Compact—to put a floor price under the farm milk price? Where does that stand?

Blaska: The Northeast Compact is announcing a minimum price for the milk that is reasonable. And that's what we think the Southern Compact will do in the Southeast. Here in Wisconsin, we're having a meeting here this week, during Farm Progress Days [exhibit fair], that will indicate to our leadership that that's what the dairy farmers want: to use the ability of government to assist the farmers in pricing this milk.

EIR: Do you see a deterioration in outlook among leadership institutions in our country, regarding the acceptance of myths, such as "free trade"?

Blaska: That's correct: The free-trade philosophy as expressed in NAFTA and GATT [North American Free Trade Agreement and General Agreement on Tariffs and Trade], would be fine, if we didn't have a unionized workforce. But that's not the way the United States operates: We have a protected workforce, which is fine. And I appreciate that. But the dairy farmers are left out on the hook, because while our input items come through that source, it's pretty hard for us to produce milk at a competitive world price, as low as it's produced in New Zealand, and Australia and possibly in Poland, and, now, in Argentina and Brazil. Argentina—not so much Brazil—which are expanding their production, because they don't have the same cost items that we do here, in the United States. So, we do have to use the available tools that we have. They were well written back in the 1940s. We call it the Federal Order System.

And we have the [current] farm bill, which continues to protect sugar, peanuts, and tobacco, and also the legislation that was written for the protection of fruits and vegetables, for those states that want to use it; and cranberries, in our state here, with use of the Federal Order System to protect their price, for the benefit of the growers. We have to go back and use this on the dairy bill, and forget this idea that we want to bust the Canadian milk price, in order to think there is another billion dollars' worth of sales there, which is a falsehood. Canadian farmers have protected their price, but they do not flood our market with their milk. And they don't expect us to flood their market with our cheaper milk. So, we do have to move ahead, as far as the dairy industry here goes, especially in the Midwest. If we do not do that, it will be a continuous decline. Now, since 1985, our industry in Wisconsin has declined about 12%. That's on a basis of milk poundage, and much more than that on the basis of producers. We've probably lost a third of our producers since the 1980s.

EIR: How does this show up on the county and local level, where some farmers have had to go out of business?

Blaska: In the states surrounding us, where dairying is not quite so intense, it shows up as no more infrastructure for dairy. The feedmills cease, so the farmers have to exist by working at a great distance—especially for the parts you need for specialized equipment—so 40-50 miles is not unusual to secure a source of supply parts, and supplies that you need in a dairy. And, in Wisconsin, that trend is building: What we're losing now, is the cheese factories that are closing, and so many towns are losing their factory. These are moving west, and are built as huge factories to accommodate those large factory dairy farms we have in New Mexico, Arizona, and California. So Wisconsin infrastructure will decrease, and that is on a continuing basis.

We see nothing in the near future—unless we do use a pricing system to put a floor price under this milk. What we're going to suggest, is an index based on the total cost of production. We have those figures, they come out of Cornell University. They have a 30-year study going there, that gives it for each year. We just received the one for 1996, and the cost of producing the milk in New York in 1996, was $15.14 [per hundredweight]—that's an average cost of the farmers that were surveyed. They only received $14.93 for their milk, so apparently they got less than the cost to produce it. But last year was a very good year as far as pay price, and the milk price was up nearly $2 in New York last year, which helped them quite a bit. But this year, our cost of production still continues beyond, I think, the $15 per hundredweight figure, and our price on our last milk check was $11.95. So we've dropped about $3 behind the cost of production at the present moment. And we need to stop that nonsense of thinking that we can subsidize this industry, because the farmers don't do it. They just quit. And they can find another future quickly once they leave the dairy farm—and they do. So they can take some of these other jobs that are available. Wisconsin's unemployment is probably less than 3% statewide, and there is plenty of work for the dairy farmers off the farm.

EIR: But of course you can't pull a switch that re-starts a dairy herd.

Blaska: No. They do not re-start. Once a dairy shuts down, it ends. Very, very few of them start up again. Now, the only way they would start up, is that we could guarantee that the cost of production would be realized by the farmer with some security for over a period of time. He won't do it over a one- or two-month promise. It's got to be there for several years. That's more true yet, in the Northeast part of the United States, and that's exactly what the Northeast Compact was talking about. And last month, they were able to raise the price nearly $2 per hundredweight for the producers in the Northeast area.

EIR: In other words, you're talking about what would be beneficial for preserving our national production base of milk, instead of the globalist idea, that there should be some world market—especially for something so perishable.

Blaska: Absolutely. Remember back, when World War II was at its height, and our dairy industry then was committed, and the government made that commitment to us, that they wanted that protein from the milk, and the fat; so we just expanded the industry and we did it with parity pricing. Of course, that parity pricing they gave us in the late 1930s lasted until 1980. And it built a beautiful industry. We did produce some overages through some of those years, that were used to feed the world, after it was nearly demolished in the '40s, and that lasted way through the '60s. They called it Public Law 480. Those donations that were made, are a very small price to pay, as far as the American taxpayer was concerned. And they still had a plentiful supply of milk here, at a moderate price.

What's happening now, without some incentive to keep the production up, is that the milk prices went sky high in the stores last fall, and of course, they didn't come down again. That's the way the game's played, when you have a dairy economy that's pretty well controlled by just a few players, especially on the cheese and butter side. So they didn't reduce the price after they moved it up last fall; they just reduced the producer price. So that spread then, went into the multinational companies that own most of the dairy-processing plants and have a pretty good fix on the market. That includes Philip Morris [Kraft] and others of that nature, especially the food distribution companies—some of them are owned out of England, the Metropolitan group. These international companies just left that price up, and take the margins from the consumers.

So we did lose some sales, especially in the cheese market. We think the demand was reduced a bit, because of the high prices in the stores. That just compounded the problem of pricing the farmers' milk. I think we have to pay the farmers first, and then, the market will settle out, and there's no reason to believe that the consumers would have to pay any more for their milk, if the farmers got their pay first. The margins are way too wide, between what the farmers are paid, and what the consumer pays.

EIR: You're talking about re-establishing a national-interest policy, based on a percent of cost of production, like the 1949 farm law left it, up through 1980.

Blaska: Yes. They were using a parity calculation. The parity was probably outmoded because of technology changes. The cost of production index that I have been quoting you, out of New York, has all these technology improvements that we get, including BGH [bovine growth hormone], show up as reducing the farmer's cost. So they're all built into that cost of production.

EIR: That's how they got the $15.14 per hundredweight figure for 1996 cost of production?

Blaska: That's right. All that technology is built in, and we do have to cover those costs, which is a fairer way than we used to do with the parity, because the parity was pretty much outmoded. So, what we had to do on the parity, which the consumers and the Congress didn't understand, was that we reduced the percent of parity. When we reduced in 1980, off the index, it was at about 70% of parity—that was the support price for milk. During prior years, when the war was still on in the '40s, we had 100% of parity. With the increased technology that the dairy farmer is able to get from many, many sources, he is able to produce the milk at a lower cost per hundredweight.

But now, the total cost has gone up to $15, and there is no way that we can change that. We cannot change the cost of taxes, or the cost of utilities—which is another regulated industry that we have no power over. So we pay the price: All those costs put together, and the cost of feed, make up a cost of $15 to produce milk. And that's a Grade A quality, now. We are paying for a lot of government mandates and safeguards, when we say that. We just can't produce milk from a cow that isn't fully treated, for health reasons. There are no TB cows; none with brucellosis; none with Mad Cow disease. We've taken that all into consideration in our cost of production. But it does cost us to do that. And, the same with BGH; many of the farmers will not use it. They could produce milk a little cheaper if they did; but their market does not want the BGH. That's true of California; much of the California market won't accept BGH. We have to produce what the consumer wants. So, that's why we have to recover that cost.

Somehow we will have to declare, through the Federal Order System, that milk will have to be priced that much, before the buyer receives it. This is possible under the Federal Order System. We've done that for years and years.

EIR: What's the timetable, and opportunity, to get this through?

Blaska: I think we have a good timetable for the balance of this year. The Texas dairy farmers—the Texas Milk Producers Association, with Clint Van Vleet, has issued a strong statement to the secretary of agriculture to try to resolve their problems down there. The Greenbay Cheese Exchange was pretty much dismantled by the producers in the last period, this winter and spring; that was the source of the pricing in the past. But this was so controlled by a couple of buyers; they were able to play even world market cheese against that market, so that it would reflect more of a world price for cheese, rather than the domestic price. And that's the price they had used to price our fluid milk. So that's been pretty well dismantled, and the secretary does have to come up with a fair price—we call it a Basic Formula Price, or BFP—and the secretary does have to discover a new Basic Formula Price, and we are urging the use of a cost of production item as part of that Basic Formula Price.

EIR: In the face of the need for food internationally, and the need for the development of national agriculture sectors' own output capability, what do you see, especially for the food needs in Africa and North Korea?

Blaska: As far as the food for developing countries that are in trouble, and that includes North Korea, and all of Africa, and there are others—the problems of Cuba—it's pretty clear that they're not getting the source of food needed. And Mexico has some definite problems, though it is probably ahead of some others. That need still exists, and a much cheaper way for the government to assist the developing country and help it emerge, would be with food. And then, of course, the old, big opportunity we have is for a free and open market with the eastern Asian countries, including China—probably a market that we could never satisfy, as far as food is concerned, as the years go by. So, we have to build relationships with China and other massive population countries that are food-short. And the proteins of milk—especially our whey industry—there's plenty of market there, but as of this hour, we still are infants in world marketing.

Our industry needs to be assisted by our government. Most other governments, including New Zealand and Australia, are partners with their dairy industry. Ireland is also in that group. They are partners with their dairy industry to assist them in getting their milk inventories, and keeping them reasonable by exporting the product. So the opportunities are there, if the will is there on the part of the Congress and the industry to do it.

A free-market farming system has some real problems in the United States. Good examples of successes, of course, are the peanut growers, sugar growers, and fruit and vegetables. We have some smaller examples, like cranberries. But they all use a system of managed supplies, and protected industries. Dairies fit into that class, and we're just going to have to do it, if we are going to retain a dairy industry in most of the United States. Now, I'm not so sure that the western dairy industry can prevail over time. As the feed prices rise, they're going to find that the cost of production of their milk will have to be considered. Up to this point, California runs pretty much its own system, as far as marketing its milk. They're not part of the Federal Order System. But the farmers out there, I think, will have the same problems we're having in the Midwest, as far as, the way we say it on the farm, "paying the feed bill." So, if we can't pay the feed bills, then we won't produce the milk. That's about the bottom line.

EIR: Under the myth of free-trade thinking, when it comes even to a grain reserve in the national interest, this has been outlawed by the World Trade Organization, which came into effect in January 1995. What do you think about just the basic grain reserve for food security for a nation?

Blaska: I think that's part of the problem we had with dairy last year, when grain went so high. Most dairymen have to buy the grain. If that's going to be the national policy, there's going to be a lot of problems. It will also creep into the pork and beef industries, very quickly, which are very grain-sensitive, as far as the feeding grain. If they are going to shorten up the world supply of grain, and we're not going to carry any reserves, or granaries, then the price will go sky high some years. We saw what happened last year. And this year, the soybean price is still very, very high, because the reserve is empty. There is no reserve for soybeans. We're depending on this new crop, and nature has a funny way of sometimes spoiling your plans: There's drought now in China. Right now, the Midwest looks fairly good, but there is a drought that seems to be spreading across Illinois and Missouri, so we might not have all the corn and soybeans that's being predicted.

Yes, I would agree that we have to go back to a normal granary of some balance, similar to what Canada does, in order to make our consumers comfortable. They won't be very happy with sky-high beef and pork prices.

EIR: Have you seen patterns of direct investments into factory herds in the last few years?

Blaska: Sure. But although we are hearing it in the pork industry, in dairy, we are not getting it from what we call the milk processors. They're not making investments. Years ago, we had a few going into it in Florida, Arkansas, and a few other places, but they're not doing that in dairy; it's too much risk for them. It's a big management problem to run a dairy. The money that is going into dairy now, is pretty well generated from inflation of the land around big cities, especially in California, so that these people that are dairying, are selling the land, and moving on and making bigger factories in another states. Idaho is the recipient of a lot of that money, and Kansas is getting some of that now, coming from farther west, but it's generated by inflated land values, and then it is reinvested, for tax reasons, in dairy. I don't know how long that curve will last.

EIR: Besides the famous cattle feed lots, and processor-owners of cattle in the United States, in Argentina, George Soros is now one of the biggest owners of wheat lands, and is holding maybe 20,000 tons of wheat, alone, off the market, speculating.

Blaska: Well, IBP, the big pork packer, announced last week, that because of the shortage of hogs, they were going to invest in production facilities on their own.

I would hope that our anti-trust laws are more clear than that. That the packers would be allowed to produce their own livestock, I think that would be very dangerous. I would not want to see that happen. This would be as bad as communism, or worse.

EIR: Command production, you mean.

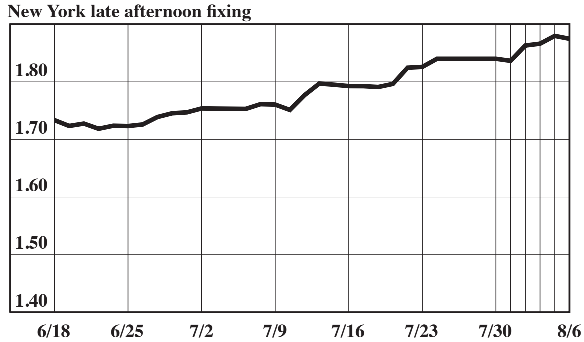
Blaska: That's right. Because what they'll do is use that production over your head, to keep the price of the rest of the producers down, and that we can't tolerate. But that's being done in the pork industry, and in the beef industry, and certainly in chickens—the Tyson, Cargill, and other interests. But dairy is still pretty clean, as far as the outside investors go.

There is an interesting trend going on right now. There is a lot of producer unrest. But the Congress hasn't given us a clear signal yet, as far as dairy goes.

Currency Rates

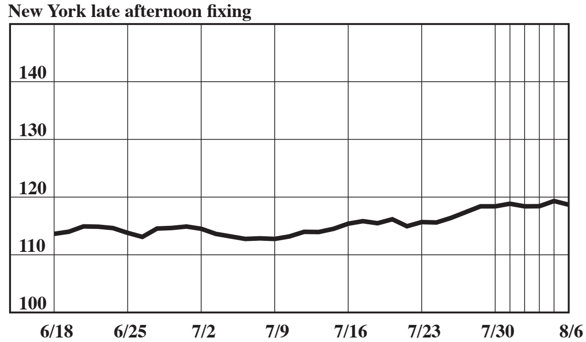
The dollar in deutschemarks

New York late afternoon fixing



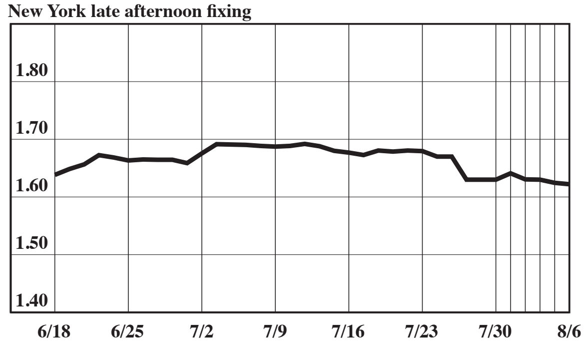
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing