

BUTTER - THE ECONOMIC BALANCE WHEEL

Remarks by Chas. N. Shepardson, Member, Board of Governors, Federal Reserve System, at the Forty-seventh Annual Meeting of the American Butter Institute, Hotel LaSalle, Chicago, Illinois, on October 6, 1955.

Gentlemen, I especially appreciate Mr. Fifer's introduction because, while I am presently engaged in reserve banking, I am still so new in that field that I hardly know the language. Hence, I certainly would not attempt to appear before you to discuss credit and monetary policy. Neither is it proper in my present position to discuss national agricultural policy. I told Russell this when he invited me to speak to you and he said, "That is all right -- we want you to talk as the former head of the Dairy Department at Texas A. and M. College." So it is in that capacity that I appear before you today. Even that position may seem questionable to some of you when we consider what has happened to the butter industry in Texas in the last 15 years.

In 1930 Texas agriculture was suffering from a depressed cotton market and farmers were looking for some way to improve this situation. At that time we had relatively little commercial dairying. While we had approximately 1.1 million dairy cows, or, more properly, cows being milked, they were scattered as family cows or in small farm dairy herds of three to six cows. Most of our fluid milk was distributed raw by the producer. We had virtually no cheese, condensed or powdered milk business. And we were making about 26 million pounds of creamery butter and 57 million pounds of farm butter.

From 1930 to 1940 we saw many changes. While it was generally a period of tight times for the farmer, dairying expanded rapidly and made considerable advances in efficiency. During the worst of the depression it was truly a life-saver for many areas of the State. While milk and butter fat prices fell to pitifully low levels, other farm prices were even lower so that the milk or cream check provided the margin of difference enabling the farmer with a few cows to hold on when many others were being closed out.

I expect that the topic which Russell assigned to me for this discussion grew out of statements that I made repeatedly during that period and subsequently at a hearing in Washington in 1949 on the importance of dairying, and butter in particular, as a balance wheel in our farm economy. At a time when all other commodities were depressed, dairying provided an outlet for otherwise non-marketable pasture and rough feed on the farm, the skim milk provided a valuable protein supplement for a growing swine and poultry enterprise. Diversion of surplus cotton land to pasture and feed crops helped relieve the pressure on a glutted cotton market. And with the use of the manure, dairying made a real contribution to the soil conservation and fertility program that was just getting into full swing. Finally, it provided the only source of cash income that many farmers had.

In 1940 the picture had changed materially. We then had 1.3 million milk cows. While milk production was still low, it had increased about 500 pounds per cow per year. We had a rapidly expanding fluid milk business. We were the sixth State in the Union in cheese production with a total of 18 million pounds. We had a number of powder plants producing 3 million pounds of powder. Although farm butter had fallen off to 41 million pounds, creamery

butter production had increased to 36 million pounds. In that year dairy farm income, including dairy beef, in the great cattle and cotton State of Texas equalled the beef cattle income and amounted to about two-thirds of the cotton income. Even more important, thousands of small tenant farmers with little or no capital had built a small weekly cream check into a toe-hold that enabled them ultimately to become farm owners or at least tenant operators on a more substantial basis.

From 1940 to date we have seen a different trend. The rapid mechanization and technological advances of agriculture, a rising industrial economy stimulated by the world-wide needs of a war and postwar situation, and the accompanying shift in rural and urban population have produced a sharply contrasting situation. Farm units, including dairy herds, have become larger. With these larger mechanized farms and, until recently, favorable cotton, cattle, and wheat prices, the farm dairy herd with its daily chores has largely disappeared.

In 1954 Texas had 950,000 dairy cattle concentrated largely in Grade A herds in our fluid milk sheds. Cheese production was down to 5 million pounds, farm butter to 16 million pounds, creamery butter to 7 million pounds, and powder plants and condenseries were out of the picture except as surplus outlets for our fluid milk plants. In fact, a considerable part of our cheese and butter production comes from surplus Grade A milk rather than from ungraded milk and farm separated cream.

All right, you say, so what? After all, Texas represents only a part and not a major part of the national dairy picture. Certainly that is true but while the shifts which I have described may be extreme, they appear

to have followed the same trend that has taken place in the rest of the country. In 1930, 42 per cent of the nation's total milk production went into butter and about 80 per cent of that was marketed in the form of farm separated cream. In 1940, 40 per cent of our milk went into butter, of which about 70 per cent came from farm separated cream. In 1954, only 27 per cent went to butter, of which only about 50 per cent came from farm separated cream. How then can we still refer to butter as an important balance wheel in our farm economy? I think there are several points which we should consider and the order in which I list them has no particular significance because their relative importance will vary depending on conditions in different sections of the country.

1. For the young farmer making a start with a limited amount of capital and therefore dependent on a high proportion of labor to capital income, the old cow, sow and hen program is still sound. True, it is pretty confining, it involves lots of chores, it is not as susceptible of extensive mechanization and does not offer the possibility of as large a gross, and, we hope, net income as a more specialized operation. The young farmer will probably shift from it as soon as he can. Still, it has the safety of diversification, it calls for a large amount of the one thing he has to invest -- namely, labor and initiative in proportion to capital. Thus, it affords him an opportunity to establish a credit rating on which he may be able to get the necessary capital to move into a Grade^A/operation or even some other type of farming.

2. While we have had a remarkable expansion and improvement in our national farm road net and in transportation and refrigeration facilities in

recent years, we still have large areas that are too remote or too sparsely populated to avail themselves of either a Grade A or a manufactured milk market. Yet we have many small farmers in some of those areas who need a farm dairy herd for the benefits that it can contribute to this farm program.

These benefits are diversification, stability, use of labor, and regular cash income. Even in this day of wide-spread and increasing use of credit, there are many of us, and this isn't limited to farmers, who lack the business acumen and self-restraint to rely too heavily on credit and for whom a dependable regular cash income, even though small, is a real life-saver.

3. We are much concerned about strategic reserves and stockpiles in this period of world tension and uncertainty. True, we are prone to think of these stockpiles in terms of metals, chemicals, and other war materials, but we are also concerned about food stocks. We all remember the big demand for milk powder, both whole milk and non-fat powder, during the last war. That portion of our national dairy herd used for the production of farm separated cream constitutes a constant reserve in being that, in case of necessity, can be diverted as a source of manufactured milk.

4. During the war we expanded both our agricultural plant and our agricultural productivity at a prodigious rate to meet the needs for food and fiber, not only of ourselves but of our war-torn allies around the world. Our exports of farm commodities reached tremendous volume. Since the war, those countries have been rehabilitated, frequently with our assistance, and the demand for our production has subsided accordingly. True, we have a growing population and eventually we will probably need all that we can produce for our own use but up to now that increased consumption has not been able to

absorb the reduction in exports and we find ourselves faced with burdensome surpluses and depressed commodity prices. Much of the land that was brought into cultivation during this period is normally sub-marginal crop land and should be put back into pasture or forage crops and diverted to the production of meat and milk.

But, you will say, what about our present surplus of butter and other milk products?

I think there is an answer to that. Fortunately, practically all segments of our economy are operating at a high level. With a high level of personal income, we have increased consumption of fresh fruits and vegetables and meat, poultry and milk products. While our increased consumption of butter has been small, we have a tremendous potential for further increase. I need not remind you that in 1934 we had an annual consumption of 18.3 pounds per capita. That figure dropped to a low of 8.5 pounds in 1953. It has since risen to 9.³ pounds but that is still a long way from the 1934 peak.

There were many factors that caused the big drop. Certainly, one was the increased competition of substitutes following the change in the colored margarine law. One was the distorted sense of butter values and prices as a result of the O.P.A. price control and butter subsidy program, which resulted in consumer misunderstanding and resentment when prices were freed to seek their normal economic level. Another was the fact that, while we gave lip service to quality improvement, we too often failed to follow up with real action, with the result that we had too much inferior butter on the market.

Along with these depressing market factors, there was a decrease in cream production. In part, this was due to the increased demand for whole milk and milk products by a rapidly increasing urban population. In part, it was due to the trend toward larger farms and mechanization which afforded more attractive alternatives to a lot of former cream producers.

From the standpoint of the dairy industry as a whole, this shift to greater use of whole milk for human consumption is all to the good. It has not only provided a better return to the producer but the closer supervision exercised over graded milk has resulted in a big improvement in quality in the whole fluid milk supply, including the surplus which is accounting for an increasing proportion of our raw material supply for butter manufacture. If and when we develop a profitable outlet for all of our non-fat solids of milk, it may be that all of our supply will come from plant separated cream.

Until that time comes, however, there is still a place for the cream producer for the reasons that I mentioned earlier. And there is an opportunity and responsibility for the butter manufacturer to continue his efforts to enlarge and improve that market. To accomplish this entails, among others, at least three important points that I want to mention in closing:

One is continuing efforts toward improvement of quality, especially in butter from farm separated cream. Increased availability of electricity on farms, improved farm refrigeration facilities, and somewhat larger size of farm dairy herds should all facilitate this program. In this connection, I want to congratulate the industry on the sincere efforts that are being

made by the Association and by individual members to make real progress in this quality program and on the achievements to date.

The second is continuing and intensified efforts to further increase efficiency and lower costs of production. The wide range in production from an average of 109 pounds of butter fat per cow per year in the low state to 309 pounds in the high state or even the range from 198 pounds in the heaviest cream producing area to 270 pounds in the high area is indicative of the possibilities for improvement. While breeding is an important part of such a program, more efficient feeding and management will produce even greater and faster results. The trend toward larger herds, together with increased pressure on quality improvement, should lend impetus to such a program. In this connection, I would urge that more attention be given by fieldmen to the development of production rather than the procurement of production that has sometimes existed in the past.

And, last, I would commend the industry, including both processors and producers, on their increased awareness of the importance of selling butter and all dairy products. For too long the producer, particularly, seemed to feel little responsibility for the sale of his product. In the current battle on the part of all foods for an increased share of the limited space in the human stomach, the dairy industry cannot afford to lessen and might even increase the fine merchandising program which is being carried on by the American Dairy Association as well as by other segments of the industry.