when the local unions must ratify the national LO package. Some unions will try to get more because some companies still have profits. But even if they get a few more percent, they will get a substantial loss in real wages, which is what counts."

Somewhat shocked by the size of the projected wage cuts and the openness by which these economists spoke of the plan, I asked the Riksbank economist what the Social Democratic government of Olof Palme thought of this program.

"This is the government's program," he replied. "Call up the Economics of Industry Ministry or any Social Democratic leaders."

Some days later I had an extended discussion with Hans Hagnell, the Social Democratic "Landshoevding" or state-governor of Gavle. He said that Swedish unemployment (officially stated as 3.7 percent) is minimally four times that amount when all the disguised unemployment is counted.

Guest workers to be expelled

What will happen if the government carries out the economic program that the economists had recounted to me? Hagnell responded that unemployment would continue to rise. "The problem, "he said," is that only the west coast of Sweden had been converted to a service economy [with the collapse of the shipbuilding industry] but northern and central Sweden had not yet been de-industrialized. This would cause hardships."

"How would you cure the unemployment?" I asked.

"We wouldn't. There is nothing that can be done."

"But you are the governor of a state; surely you have some program for alleviating unemployment?" I insisted.

"The only thing we could do is to kick the foreign workers out. Just because some Mexican or some Turkish child cries that he wants to go to Sweden, there is no reason to let him in. We will have to get the 800,000 foreigners out gradually, because all the liberals will complain if we do it too fast."

Surprised, I asked him to confirm if he was a Social Democrat. "Yes, I have been a Social Democrat since I was 16. I was trained by the Marshall Plan in the U.S. in 1948, I was the chief economist for the metalworkers for 25 years and head of the shipbuilders branch of the metalworkers for 12 years. I know the textile workers and autoworkers in the U.S. very well; in fact I stay with Victor Reuther in Washington when I go there."

In a subsequent conversation with a Swedish businessman, I remarked on the phenomenon of all political factions from the employers' federation and the Riksbank to the trade unions and the Social Democracy having the same political point of view.

He looked at me with a smile, "So you like our little dictatorship up here.?"

"It's remarkable," I replied.

"Yes," he returned, "we are much more efficient than the Russians."

Price-support deal is a total deregulation of the

by Cynthia Parsons

Although U.S. dairy farmers viewed the fifty-cent reduction in price supports as the best compromise they could get in the current economic crisis, it is actually the first phase of total deregulation of dairy production. Given escalating costs and decreasing consumption, particularly of butter, the total $1 cut in price supports that will be enacted under the Omnibus Reconciliation Act will be disastrous for new farmers. It is nothing but a direct tax on milk production.

Recent increases in output have been due in part to the fact that grain and other farmers have been going into dairy production as the bottom fell out of grain prices. Per capita consumption has decreased due to escalating food prices. The only factor maintaining overall consumption figures, which decreased by some 25 percent from 1960 to 1981, has been free government distribution of some thousand tons of surplus dairy produce since the spring of 1982.

Legislative review

Congress passed the Omnibus Reconciliation Act in August, after the administration requested a $1 deduction in the price paid to farmers for their milk. Dairy price supports cost $2.2 billion for 1981-82, and a two-phase system was set up to reduce that figure. The 1982 payment level of $13.10 per cwt. was to be reduced to $12.60 on Oct. 1, with the intent of forcing reduced production to decrease the overall costs of price supports. A second fifty-cent reduction was set if production did not decline. This second amount was to be returned to the farmer if he proved he had reduced output.

The Oct. 1 deadline was delayed until Dec. 1, because of the November election. If this program does not slow down milk production, Agricultural Secretary John Block will be prepared to make further price reductions if Congress approves.

The dairy lobby, now bitterly regretting its acquiescence to the cuts, went along with the decision under heavy media pressure. A well-run barrage featured headlines such as "We Cannot Afford the Butter Mountain." In fact, the government had bought only 11 percent of last year's production, or some 14 billion pounds. Block cashed in on the media campaign, counting on disunity and confusion in the industry; he also

first step in the U.S. dairy sector

claimed that it was the high price supports which were responsible for the surpluses.

In the face of this onslaught, the dairy lobby compromised, afraid that the administration would convince Congress to relinquish the right to alter price supports up or down to the Secretary. The fight by the administration and deregulationists to get Congress to relinquish such powers dates back to the Carter administration and Bob Bergland era and a 1978 report by USDA entitled "Dairy Price Policy: Setting, Problems and Alternatives," which recommended such a change in the law.

Block echoed this desire at the annual conference of National Milk Producers Federation (NMPF) on Nov. 30. While exonerating himself from responsibility for the 50 cent tax, blaming it entirely on Congress, he did say that "Frankly, I think the administration's plan is looking better all the time." But it is understood by the administration and the industry alike that the 50 cents will not help reduce milk supplies. Indeed, as in the grain sector, a price squeeze will induce the farmer to produce more to compensate for the loss in unit price. The compromise, as a dairy expert exclaimed, "could be the writing on the wall" for the dairymen.

Phase I of deregulation

The compromise is really a foot in the door for the real intent—to eliminate price supports entirely, leaving milk and dairy production to the supply/demand forces of "the free market." The 50-cent reduction is really the culmination of a successful Phase I of deregulating the industry.

Phase I began when the 1981 Farm Bill set the dairy price supports at a maximum of 80 percent of parity. This was the first time in 40 years that support prices were not calculated on parity. The 1977 Farm Bill held that parity prices could not be set lower than 80 percent. With the August Budget Reconciliation Act, parity was again changed, setting it at 75 to 90 percent. It also set a derived $13.10 support price, which is to be held until Oct. 1, 1984. Farmers will be paid the same basic price per cwt. of milk minus the $1, making the next two years' basic milk price $12.10 or less, no matter whether operating costs increase or not.

Responding to Block's statement that the administration would do nothing until the industry came up with a unified proposal, the NMPF adopted a set of broad principles at their convention on the price support program. The basic premise again was that "we have too much milk and the plan must reduce production." But they did say that the plan "must maintain the parity concept."

The other major umbrella group for dairy cooperatives, the American Milk Producers Industry (AMPI), said that the 50-cent move hit when they were in the process of drafting a dairy proposal with NMPF. AMPI also accurately claims that the tax does not address the real problem. The entire economy is at depression levels, the organization asserted, and the dairy problems had to be seen in that light. However, any concession by the government would be acceptable because "it is buying time".

On the other hand, the National Farmers Union's Dairy Task Force is urging Congress to enact a new dairy supply management program giving dairy producers incentives to trim production in line with demand. Those who participated in the scheme would receive supports at 70 percent of parity.

The parity question

Yet while everyone is scrambling to maintain some form of parity, and misfocusing on the discretionary powers argument, the rug has already been pulled out from under the dairy lobby's feet. The parity calculations used until the 1981 Farm Bill was passed are no longer in effect.

Parity price is the standard used to set the price for the dairy price support program. Its objective is to assure an adequate supply of milk to meet current needs, reflect changes in production costs, and assure farm income sufficient to maintain productive capacity to meet anticipated future needs.

For many years the method of calculating these prices has been under attack. In 1980, the GAO's report "Alternatives To Reduce Dairy Surpluses," claimed that the formula was too successful because it included some factors "such as family housing and clothing costs, which have little to do with milk production." Therefore supports have promoted "more than adequate milk supplies." Indeed, the parity pricing system ensures that the farmer can maintain and improve his operation and cheapen the costs of production. An alternative intermediary step to the deregulation goal, claimed GAO, would be a pricing system based on the "dairy parity pricing formula" which bears no relationship to the previous parity methods. This new formula, calculated in 1980, came to $1 less than the prevailing parity prices then. In effect, a $1 decrease in actual parity payments has been achieved without changing the name of the system. However, a USDA dairy spokesman admitted tht the 1981 bill was not based on parity.

Meanwhile, the USDA is working on a major policy review which could well justify the move into Phase II. It will not be ready for another six months.