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Abstract
This article reviews the steps taken at the University of Missouri in dealing with a very controversial study on dairy compacts. More and more, Extension is being asked to conduct applied economic studies on controversial public policy issues. However, care must be taken to conduct these studies in an objective and scholarly manner without unnecessarily alienating affected stakeholders. Academic freedom and integrity must be maintained, and faculty cannot allow themselves to be placed in a position to be influenced by affected stakeholders. At the same time, Extension cannot operate effectively without these important stakeholders. This study outlines an acceptable balance.

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Introduction

Extension is increasingly being asked to analyze and address controversial issues of importance to their local stakeholders. This is particularly true for Extension economists, who must now conduct applied research that was historically done by their research colleagues. This new trend provides opportunities for Extension to develop well-conceived, research-based economic analysis of critical public policy issues. However, it also carries risks, particularly if Extension is viewed as " biased" or providing skewed results to meet the latest political needs of select local stakeholders.

In the spring of 1998 this author, along with other University of Missouri Extension faculty, was requested by a state dairy association to evaluate the economic impact of a policy proposal. The Missouri Governor and state legislators were considering whether or not Missouri should join a controversial Southern Dairy Compact. Regional dairy compacts are designed to enhance local and regional milk prices. By design, they also affect interstate trade in milk and dairy products. To join the Southern Dairy Compact, Missouri had to seek passage of a new state law authorizing the compact, approval by the Governor of Missouri, and ultimately consent of the Congress. The Missouri Director of Agriculture, Mr. John Saunders, was interested in this issue because he was charged with making a recommendation to the Governor regarding support for state legislation that would enable Missouri to join any new compact.

After presenting some historical background and citing some literature on Extension involvement in controversial topics, this article reviews the steps taken by the University of Missouri in dealing with a recent very controversial study. While the study did not quell the controversy surrounding the validity of interstate dairy compacts, it did provide various public and private stakeholders in Missouri and beyond with a greater understanding of the economic tradeoffs involved. More important, the process employed by the university maintained the integrity of academic freedom and sound science.

Pamphlet Number 5 and the Oleo Margarine War

The profession of agricultural economics has a long history of dealing with controversial public policy issues, particularly with regard to analysis dealing with the U.S. dairy industry.

In 1943, Professor T. W. Shultz, then Head of the Department of Economics at Iowa State University, co-authored a controversial report on the nutritive value of oleo margarine. The report, referred to as Pamphlet No. 5, "Putting Dairying on a Wartime Footing," made the assertion that margarine compared favorably with butter as a source of fat in the diet (Beneke, 1998).

This report struck a sensitive nerve with the U.S. dairy industry. At the time they were trying to maintain a two-to-one price advantage for butter over oleo margarine. An indirect impact of the war years was to introduce consumers to a cheaper and more plentiful alternative to butter. Butter sales as a result dropped from 16 pounds per capita before World War II to 10-12 pounds just after the war (Bailey, 1997). During the three decades beginning with the 1950s, butter sales fell and stabilized at just over 4 pounds per capita. Margarine sales, on the other hand, grew from just over 2 pounds per capita before the war to 10-12 pounds per capita by the 1980s.

Beneke (1998) reports that the president of the National Dairymen's Association disputed the accuracy of the publication. That put pressure on Iowa State College President Charles Friley to reevaluate the publication. The affair ended with Schultz tendering his resignation during the controversy to Friley "so that our discussions may be as free as possible from any concern about my personal or professional interest as a member of the staff." That one resignation brought to light the fundamental right of faculty members to conduct research free of special groups that have a vested interest in the outcome of university research.

Extension's Role in Public Policy

More recently, Barron (1998) notes that public policy often creates both winners and losers. In this environment, the principles of honesty, respect, and decorum may fall by the wayside. Despite these dangers, Barron suggests that "it is the job of university faculty and administrators to support and seek the truth wherever that path leads."

Extension has a unique role in conducting public policy analysis because of our close relationships with stakeholders that are affected by such research. Goodwin (1993) suggests a more limited role for Extension by presenting contrasting viewpoints only. But Schumacher and Lloyd (1997) take a more aggressive stance by stating the role of Extension in public policy education is, "(a) to make highly technical information available to farmers and the public in an understandable form; (b) to provide unbiased information; (c) to help create a forum in which all stakeholders have an opportunity for input; and (d) to provide education for our clientele."

Interstate Dairy Compacts

Like the oleo margarine study, the subject of interstate dairy compacts is extremely controversial because it has the potential to pit farmers against farmers, farmers against processors, and farmers against consumers. In many cases, lawmakers, both at the state and federal level, are caught in the middle. They are requested to make decisions on a very complicated issue. The economics of dairy compacts, despite the complexities of dairy policy and conflicting statements made in the popular press, is extremely clear.

A dairy compact is an agreement among a group of states to regulate the price of milk. The compact receives its authority from the Congress. That authority requires the creation of a Compact Commission to promulgate rules and set milk prices. The Commission attempts to enhance revenue for dairy farmers participating in the compact by fixing fluid milk prices (bottled milk) above existing federal or state prices. The Commission only has authority to regulate fluid milk prices; milk used for manufacturing purposes is not subject to such regulation because it derives its value from a national market.

The U.S. Constitution prevents state laws from interfering with the interstate shipment of goods and services. Our founding fathers recognized that if the economy of this country were to grow, goods and services must be freely traded across state lines. Thus one state cannot fix a high milk price for their local dairy farmers and erect barriers to lower priced out-of-state milk.

An exception to interstate trade may be found in the Commerce Clause to the U.S. Constitution. That exception allows states to " compact" together if they gain authority from the Congress to do so. Historically speaking, this exception was used over time to deal with border disputes and other administrative matters important to only a few states in the Union. The Northeast Interstate Dairy Compact (Northeast Compact), which expired in September 2001, was a recent example of a compact between six New England states and received its authority from Congress in the 1996 Farm Bill.

The language that created the Northeast Compact required that a commission be formed. The Northeast Dairy Compact Commission established regulations and set a fluid milk price (compact price) at $16.94 per hundredweight (cwt) for all milk used for fluid purposes in the compact region. At this level, the compact price was above the minimum federal fluid price for the compact region (called a Class I price). The difference between the compact price and the Class I federal price was called the compact obligation, and was collected each month by the Compact Commission and distributed back to compact farmers net of certain deductions.

By setting a minimum wholesale fluid price above the federal northeast price, new dollars were generated. The Compact Commission paid out $105.6 million in payments (net of escrow requirements) to eligible dairy farmers over the period July 1997 � April 2000, averaging $0.57 per cwt (Bailey, 2000b). This method of fixing wholesale fluid milk prices acted to stabilize and enhance the fluid portion of a farmer's milk check.

The effectiveness of dairy compacts in generating new revenue for dairy farmers is part of the reason why it is so controversial. Small family farmers struggling to remain solvent in a very competitive national market for milk see it as a way to garner more dollars from the marketplace. At issue is how much more will processors and retailers pay for milk under a compact scheme, and how much of that increased cost will be passed on to consumers? In addition, if farmers in compact regions receive additional income, will some of them expand their milk production? That would result in additional supplies of cheese, butter, and nonfat dry milk, depressing farm-gate milk prices for farmers in non-compact regions. Hence some farmers are helped and others are hurt.

Steps Taken in the Missouri Study

A study on the economics of dairy compacts was undertaken at the University of Missouri. The study, later called the "Missouri Study," used a team approach to determine the scope of the project, identify an acceptable methodology, and complete the study. The following steps were developed for completing the study:

1. Develop a study committee comprised of knowledgeable experts from government, academia, and industry.
2. Define a research proposal in terms of objective, methodology, and resources needed.
3. Conduct the study, and develop a draft report.
4. Seek comments from the study committee and from the Executive Director of the Northeast Interstate Dairy Compact.
5. Present the preliminary study to the Missouri Director of Agriculture, Mr. John Saunders.
6. Publish the report, and widely disseminate the research findings.

The purpose of the study committee was to provide input and guidance on the study objectives, scope of the project, methodology, and write up. The study team was comprised of experts in the field of milk marketing. They included the author, economists from the Food and Agricultural Policy Research Institute (FAPRI), economists from USDA (Market Administrator), and representatives from two local dairy cooperatives and the Missouri Dairy Association (MDA).

The basic questions the study attempted to answer were:

1. What impact will a Southern Dairy Compact have on Missouri farm-gate milk prices?
2. How will the compact affect the milk supply in participating states?
3. What impact will the milk supply have on milk prices, if any?
4. How will the compact affect fluid milk consumption in Missouri?

The major conclusion from the study committee was that the compact study could not be limited to just Missouri. In other words, in order to address the objectives of the study, a national approach would have to be taken, along with regional and state impacts. That's because prices for dairy commodities, such as butter, cheese, and nonfat dry milk, are determined on a national market. And such an approach would show the impact of regional dairy compacts on dairy producers outside the compact. The study committee also suggested that the study take into consideration the impact of dairy compacts on other constituents, namely consumers.

Needless to say, some of the committee members did not agree on a national approach. Some stakeholders stated that they requested a study focused on just Missouri dairy farmers. They expressed concern that the study would unnecessarily reveal the economic tradeoffs of dairy compacts on alternative constituents, particularly consumers. They reasoned this could affect Congresses decision to provide authority for a new compact.

Despite some disagreement on the scope of the study, it was completed after careful consideration of input from each member of the study committee. The results were then transmitted to Mr. John Saunders via Dr. Ronald Turner, Executive Vice President and Director of Cooperative Extension at the University of Missouri (Turner, 1999). A presentation of the study results was then made to Mr. John Saunders, invited members of his staff, and individuals from the MDA and the Missouri Farm Bureau.

Results of the Missouri Study

The study identified two distinct regions: compact regions and non-compact regions. The study assumed the creation of three compacts (Northeast, Appalachian, and Southeast) that comprised almost 30 percent of the nation's milk supply.

The results show that dairy farmers within the dairy compact regions received a higher farm price due to the compact. These farmers reacted by expanding milk production and the volume of milk they sold. Consumers paid more for fluid milk because the compact increased the cost of milk to processors, who passed on their higher costs.

Higher retail milk prices reduced fluid milk consumption slightly. Overall spending by consumers on fluid milk in the compact region increased. Greater milk production and less fluid milk consumption in the compact regions resulted in more milk used for manufacturing purposes. That resulted in increased production and lower prices of butter, nonfat dry milk, and cheese in compact regions. That lowered farm prices in the non-compact regions. Farmers in non-compact regions and states responded by producing less milk.

The study found that for Missouri consumers, the price of bottled milk would go up by 15 to 31 cents per gallon. Therefore, a family of four would spend an added 41 cents to 84 cents per week under the dairy compact. Total added fluid-milk costs to Missouri consumers would be $13.4 to $26.8 million per year. One reviewer at the presentation of the study results noted that the added cost of the compact to consumers was modest compared to the significantly higher returns to small to moderate size Missouri dairy farmers.

The report was released January 1999 (Bailey & Gamboa) and was immediately criticized by compact advocates. Much of the criticism was that the assumptions were not realistic and the results did not meet *a priori* expectations. For example, the study assumed that the regional dairy compacts would result in a $2 per cwt increase in the price of milk to fluid milk processors. This assumption was based on data from the first 6 months of operation of the Northeast Interstate Dairy Compact. Despite the source of data, the criticism was that this premium associated with the compact was too high.

A second criticism was that the impact of the compact on consumers was overstated. Some proponents even suggested that processors would, over time, absorb most of the cost of the compact and that consumers would face little change in retail milk prices. It seems that despite the careful steps taken to form a study committee and to seek input, controversy surrounding this very emotional issue remained.

The results of the Missouri study were later submitted for publication to the Journal of Agricultural and Resource Economics Review. The study was peer reviewed, accepted for publication (Bailey 2000a), and later received the 2001 Journal Article of the Year award by the Northeastern Agricultural and Resource Economics Association.

Lessons Learned

The author accepted a tenure track position at the Pennsylvania State University in dairy marketing and policy. Within 12 months of accepting this job he was asked by a group of Pennsylvania dairy farmers to analyze the economic consequences of the Northeast Interstate Dairy Compact. Their concern was twofold. First, they concluded that the "Missouri Study" was biased. Second, they requested a study of an actual compact (the Northeast Interstate Dairy Compact), rather than a theoretical or stylized version in the "Missouri Study." Clearly, this was a very reasonable request, and it was the responsibility of Extension to address these critical issues. The lessons learned from the Missouri experience helped with the new study (Bailey 2000b).

More and more, Extension is being asked to conduct applied economic studies of controversial public policy issues. Extension personnel often have a much more detailed understanding of the complex issues facing their constituents than their research colleagues, who are increasingly focused on more basic research. If Extension is to remain relevant to society, it must be willing to step forward and address these complex and politically sensitive issues.

However, care must be taken to conduct these studies in an objective and scholarly manner without unnecessarily alienating affected stakeholders. Care must be taken to address the impact on all stakeholders in society, not just traditional stakeholders. University administrators must be forewarned about such controversial studies. And a study committee or review team made up of respected analysts from outside the university community could be helpful. Finally, affected stakeholders should be carefully briefed on the study results before they are widely disseminated.

The process outlined in this study provides guidance to Extension faculty in conducting applied studies of controversial public policy issues. Clearly, Extension cannot and should not avoid addressing important public policy issues. Academic freedom and integrity must be maintained during the process. Extension faculty cannot allow themselves to be placed in a position to be influenced by affected stakeholders. At the same time, Extension cannot operate effectively if they are unnecessarily alienated from important stakeholders. This study outlines an acceptable balance.

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