

Admittedly, returns under the cooperative model, or for that matter any arrangement that increases farm prices, would be greater as long as the Class I premium is passed on to consumers in the form of higher consumer prices for Class I milk. However, it is unlikely that the entire increase in Class I producer prices could be passed on to consumers. Specifically, higher Class I consumer prices may reduce Class I utilization. Provided consumer demand was inelastic, total consumer expenditures would increase. As previously mentioned, there have been no time series studies on consumer demand for fluid milk in Florida. Moreover, several demand studies at the national level show that milk consumption is not significantly related to milk prices. For these reasons, the basic model assumes that consumer milk purchases are not responsive to changes in milk prices at least over the range of Class I prices permitted in the models, i.e. \$1.22 to \$1.31 per gallon.

VI.—ANALYSIS OF PROCESSOR-RETAILER INTEGRATION

The effects of processor-retailer integration on returns to processors and distributors were analyzed using a modification of the basic model referred to as the integration model. The integration model is based on several assumptions regarding changes in milk processing and distribution costs (cost adjustments) associated with processor-retailer integration. Unlike the case with the cooperative model, there was no previous experience on which to base the cost adjustments assumed for the integration model. Cost adjustments were expressed in terms of the relative operational efficiency of integrated and independent plants.

Integration is most likely to occur by large retail food chains acquiring control of processing plants. Accordingly, the larger more efficient plants are more likely to integrate into retail distribution. Small retail food chains would therefore have to obtain the bulk of their milk from smaller, less efficient plants. For these reasons, integrated processors were assumed to have lower per unit processing and distribution costs than independent processors. Due to lack of information concerning per unit costs of operating integrated versus independent plants, costs reductions were defined in terms of percentage deviation from the costs specified in the basic model.

Three alternative cost adjustments were simulated with the