April 28, 1975

To the House of Representatives:

I am returning without my approval H.R. 4296, referred to as the Emergency Agricultural Act of 1975. Although the aim of this bill is laudable, its results would be counter-productive for farmers, other taxpayers, and for America's economic recovery and world market position.

The bill would remove a considerable amount of economic independence from farmers while burdening consumers with higher prices and boosting the already overly-inflated Federal deficit.

Approval of this bill would, therefore, not be in the public interest.

In the conduct of the Government's fiscal affairs, a line must be drawn against excesses. I drew that line in my address to the Nation on March 29. I promised all Americans that, except where long-range national security interests, energy matters, or urgent humanitarian needs were involved, I would take action to hold our fiscal year 1976 deficit to no more than $60 billion.

New spending programs which the Congress is considering could easily raise the Federal deficit to an intolerable level of $100 billion. This must not happen.

H.R. 4296 is an example of an intolerably high spending program. In fiscal year 1976, it could add an estimated $1.8 billion to the Federal deficit. If used as a point of departure for longer-term legislation -- as was strongly indicated during its consideration -- it could lead to an excalation of farm program subsidies in succeeding years.

Approval of this bill would undermine the successful market-oriented farm policy adopted by this Administration and the Congress. It is a step backward toward totally discredited policies.

Prospects for farmers, it is true, are not as bright this year as in the recent past. Farm production costs have been pushed upward by the same inflationary pressures that have affected other industries. At the same time, demand for certain farm products has slackened because of the recession.

Fortunately, however, current agricultural laws are working well. In spite of the financial difficulties many farmers are experiencing, farm exports, farm net income and farm cash receipts are at high levels.

This Administration has taken a number of positive steps to assist farmers. The 1976 wheat acreage allotment was recently increased by 8 million acres to 61.6 million acres. This action provides wheat producers with additional target price and disaster protection. We have also increased the 1975 crop cotton price support loan rate by 9 cents a pound. And we recently announced an increase in the price support level for milk, which, combined with easing feed prices, should assist dairy producers.

Within the past several days, we have completed negotiations with the European Community to end the export subsidies on industrial cheese coming here -- a step that ensures that surplus dairy products will not be sold in the U.S. market at cut-rate prices . At the same time, we have worked out arrangements which enable the Europeans to continue selling us high-quality table cheese. This solution has enabled us to keep on mutually agreeable trading terms with our best customers for American farm exports.

We have also taken action to protect our cattle producers against a potential flood of beef imports from abroad. The Department of State is completing negotiations with 12 countries limiting their 1975 exports of beef to this country. These voluntary export restraint agreements are intended to keep imports subject to the Meat Import Law to less than 1,182 million pounds.

In contrast to the development of the Agriculture and Consumer Protection Act of 1973 -- which was the result of considerable thought and study -- H.R. 4296 was hastily conceived with inadequate hearings and without sufficient opportunity for consumers and taxpayers to have a voice in its preparation.

Most farmers have already made their plans and bought their seed, Many are well into their planting season. These plans have obviously been completed without any dependence on the provisions of H.R. 4296.

In the long haul, this bill ultimately would lead to constraints on production, resulting in loss of jobs in food-related industries. It would induce farmers to grow more cotton -- already in surplus -- and less soybeans -- badly needed for food. The bill would jeopardize the competitive position of our cotton in world markets.

American farmers have responded magnificently during the past several year to produce food and fiber for this Nation and the world. This has made agriculture our leading source of foreign exchange. This year, despite very trying circumstances, most farmers are again going for all-out production. They have my support for a vigorous export policy for their products. Our farm products must have unfettered access to world markets.

The act, in short, is anti-consumer, anti-farmer, anti-taxpayer, and even anti-humanitarian:

--It is anti-consumer because it would cause higher prices and result in crops produced for Government storage instead of for the demands of the marketplace.

--It is anti-farmer because it would price our farm commodities out of world markets, and lead to cutbacks in production.

--It is anti-taxpayer because of the cost of subsidies for export purposes, for crop loans, for storage of inventories of Government-controlled farm commodities, and for <u>not</u> growing crops.

--It is anti-humanitarian because once our export markets are cut and our farmers are denied the profits of full production, then consumers in a world stalked by hunger would face higher food costs caused by reduced world supplies.

I cannot, in good conscience, approve this act. I return it herewith.

Mr. Cannon: This is a retyped version of the 2a page which was marked "to omit" on the draft.

Judy

(Note: This section on page 2a needs a policy decision.)

To help relieve current financial difficulties for producers, I am today directing the Secretary of Agriculture to take action to increase price support loan rates for wheat, corn, and other feed grains.

In addition, I realize that farmers face serious problems in producing food and fibers that the rest of us depend upon. I sincerely seek to solve these problems -- not aggravate them. That is why I have taken the action earlier described to help the wheat and feed grain farmers adjust to the severe increase in the cost of production occurring since the 1973 farm bill was enacted.

I would like to be as responsive to cotton growers as well, but unfortunately, the law is not as clear nor as flexible in the case of cotton as in the case of grain. I therefore have directed the Secretary of Agriculture to thoroughly reexamine existing cotton legal authority both in regard to calculating and establishing loan levels and in the exercise of authority to make open market purchases. This we will do in an effort to help insure the confidence of cotton producers that this Administration does indeed concern itself with their vital interests.

(MORE)

April 28, 1975

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(MORE)

THE WHITE HOUSE

WASHINGTON

April 29, 1975

JMC:

You may want to see these before the Farm Bill Meeting.

P

April 25, 1975

Dear Mr. Chairman:

This is to acknowledge and thank you for your letter to the President urging that he approve and sign into law H.R. 4296, the Emergency Farm Bill.

I have made sure that your letter was called to the attention of the President, and he appreciates and understands your concerns. However, I believe his decision was already made.

With kind regards,

Sincerely,

William T. Kendall
Deputy Assistant
to the President

Urging President to sign Emerg. Farm Bill

The Honorable John C. Stennis
United States Senate
Washington, D.C. 20510

bcc w/inc to Max Friedersdorf - FYI
bcc w/inc to Jim Cannon - FYI

WTK:EF:jk

14

4-25

United States Senate
COMMITTEE ON ARMED SERVICES
WASHINGTON, D.C. 20510

April 23, 1975

Dean
HR 4296

ME

The President
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President:

I wish respectfully to urge very strongly that you give your approval and signature to the Farm Bill.

The distinguished Secretary of Agriculture has been quoted in the press to the effect that he intends to recommend to you that you veto the bill. He has said in substance that the farmers are doing reasonably well, and that the farm support programs should be left alone, and the free market system be relied upon to work the problems out.

Based upon extensive personal contacts with experienced farmers, it is my considered judgement that the farmers are in deep trouble this year, with constantly-rising costs for what they must buy, decreasing prices for their crops, and eroded credit after a bad year.

In the State of Mississippi there is general agreement within the financial community that farmers are having to borrow more money to produce their crops than ever before. In some areas the loans are as much as 35 percent higher than last year. The average increase around the State is 15 to 20 percent. Farmers are having to use their equities in their land and equipment to get sufficient credit. They have watched the prices of farm commodities drop for the fifth straight month. Prices are 15 percent lower than they were a year ago, and costs are 10 percent higher. Any business endeavor facing these conditions must be acknowledged to be in difficulty.

April 23, 1975

The purpose of the Farm Bill is to lend stability to the prices for farm commodities. It does so by providing a safety net under the prices, in the form of target prices and loan rates. This is for the good of both the consumers and the producers.

Mr. President, I believe the Senate tried to be cooperative about this bill. We gave up much of what we voted for here on the floor. We did so in an effort to meet the administration at least half way.

I believe that it would be imprudent for the government to stand by and let events run their course, in the face of current circumstances in agriculture. I strongly urge that you give the Farm Bill your approval and signature.

Respectfully yours,

John C. Stennis

JOHN C. STENNIS
United States Senator

JCS:mls

Farm Bill

April 24, 1975

Dear Don:

Thank you for the April 22 letter to the President in which you and 24 of your colleagues urge that he sign into law H.R. 4296.

I have made sure that it was called to the attention of the President, and he appreciates and understands your concerns. However, I believe his decision was already made.

With kind regards,

Sincerely,

Vernon C. Loen
Deputy Assistant
to the President

and all attached for Farm Bill

The Honorable Don Young
House of Representatives
Washington, D.C. 20515

bcc: w/incoming to Max Friedersdorf - FYI
w/incoming to Jim Cannon - FYI

VCL:EF:mlg

Identical letters to all signees.

CHARLES THONE
1ST DISTRICT, NEBRASKA
1531 LONGWORTH HOUSE OFFICE BUILDING
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES:
AGRICULTURE
SUBCOMMITTEES:
LIVESTOCK AND GRAINS
FORESTS
DAIRY AND POULTRY

GOVERNMENT OPERATIONS
SUBCOMMITTEES:
FOREIGN OPERATIONS AND
GOVERNMENT INFORMATION
SPECIAL STUDIES

April 22, 1975

The President
The White House
Washington, D. C.

Dear Mr. President:

It is requested that you support the farmers of our nation by signing into law H. R. 4296.

This bill, as passed by the House and Senate, applies solely to the 1975 crops. This legislation represents an earnest attempt to find a solution to our farmer's problems with high production costs and one that will not place an undue burden on our consumers. This legislation will lend stability to the market for farm prices. Without this stabilizing influence of realistic target prices and loan levels the farmers face severe uncertainty because of higher production costs.

We, the undersigned, feel that this would be a serious threat to not only agriculture but to our total economy, and urge your signing this legislation into law.

Sincerely,

Albert H Quie
Albert H. Quie

Charles Thone
Charles Thone

Mark Andrews
Mark Andrews, North Dakota

Tom Hagedorn
Tom Hagedorn, Minnesota

James Abdnor
James Abdnor, South Dakota

Bill Goodling
Bill Goodling, Pennsylvania

W Henson Moore
W. Henson Moore, Louisiana

Bill Wampler
Bill Wampler, Virginia

The President
The White House
April 22, 1975

Bill Steiger, Arizona

Gene Taylor, Missouri

Charles E. Grassley, Iowa

John Y. McCollister, Nebraska

Keith G. Sebelius, Kansas

Larry Winn Jr., Kansas

Don Young, Alaska

David C. Treen, Louisiana

Virginia Smith, Nebraska

Thad Cochran, Mississippi

James Jeffords, Vermont

Gary A. Myers, Pennsylvania

Larry Pressler, South Dakota

Delbert L. Latta, Ohio

Joe Skubitz, Kansas

Robert McEuen, New York

Bud Hillis, Indiana

April 25, 1975

Dear Senator:

This is to acknowledge and thank you for your letter to the President urging that he approve and sign into law H.R. 4296, the Emergency Farm Bill.

I have made sure that your letter was called to the attention of the President, and he appreciates and understands your concerns. However, I believe his decision was already made.

With kind regards,

Sincerely,

William T. Kendall
Deputy Assistant
to the President

Urging President to sign Farm Bill

The Honorable James B. Allen
United States Senate
Washington, D.C. 20510

bcc w/inc to Max Friedersdorf - FYI
bcc w/inc to Jim Cannon - FYI

WTK:EF:jk

14

424

United States Senate

COMMITTEE ON
AGRICULTURE AND FORESTRY
WASHINGTON, D.C. 20510

HR 4296

HAND DELIVERED

April 24, 1975

The President
The White House
Washington, D.C.

Dear Mr. President:

MF

I wish to urge you to sign into law H.R. 4296, the Emergency Farm bill. This legislation is desperately needed to provide Alabama and other farmers throughout our nation with the most minimum of income protection.

Farm costs, since 1972, have risen by 35 percent. Alabama farmers have been selling their cotton since the first of this year for well below the cost of production. Many of these same farmers have been suffering from extremely low cattle prices these past several months and, more recently, have seen prices drop precipitously for their soybeans, corn or wheat.

Mr. President, American farmers are among the hardest working, most productive people, in our nation. We must also remember what it is that our American family farm system produces, namely, food and fiber, the most basic of products relating to human needs.

Considering these factors, Mr. President, I ask you not to turn your back on our nation's farm families. I urge you instead to acknowledge the great contribution that these good citizens continue to make to our nation's health and well-being, and sign into law H.R. 4296. A veto of this emergency legislation will have a deep and demoralizing effect on our nation's farmers--and on those who finance them!

Mr. President, Americans recently have been called upon, once again, to provide tremendous additional funds to aid the people of Vietnam. The generosity of the American people in this regard over the years has been almost limitless. Surely, they would not want their government to turn its back now on its own farmers, especially when the probable costs that might be involved are so modest.

Mr. President, on behalf of the farm families of Alabama and myself, I urge you to sign into law H.R. 4296. By doing so you will also greatly insure that both this nation and much of the world can look forward to a return to food and fiber abundance during this next year.

With best wishes.

Respectfully submitted,

James B. Allen

James B. Allen

JBA/pf

April 25, 1975

Dear Senator:

This is to acknowledge and thank you for your letter to the President urging that he approve and sign into law H.R. 4296, the Emergency Farm Bill.

I have made sure that your letter was called to the attention of the President, and he appreciates and understands your concerns. However, I believe his decision was already made.

With kind regards,

Sincerely,

William T. Kendall
Deputy Assistant
to the President

for Farm Bill

The Honorable Strom Thurmond
United States Senate
Washington, D.C. 20510

bcc w/inc to Max Friedersdorf - FYI
bcc w/inc to Jim Cannon - FYI

WTK:EF:jk

4-24

Appr. HR 4296

United States Senate

COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

April 22, 1975

The President
The White House
Washington, D.C.

Dear Mr. President:

As you know, the Senate approved the Conference Report on H.R. 4296, the Emergency Price Supports Farm Bill, on April 17, 1975, and it is my understanding that the House has today cleared that measure for your consideration.

It is my sincere hope that you will sign this bill. I find the version finally approved by Congress to be most reasonable for farmers and consumers alike. In fact, I am disappointed that it does not go far enough to meet the critical needs of Southeastern cotton farmers and does nothing to address the worsening cost-price squeeze facing tobacco producers. Nevertheless, the farm communities in my region will welcome the modest relief afforded by this legislation. On the other hand, they will be bitterly disappointed if you decide to veto this bill.

Mr. President, I have previously emphasized to you (in my letter of March 14, 1975) the necessity of your Administration doing all it can to meet the legitimate needs of the Agricultural community. I reiterate that deep concern to you now and urge, in the strongest possible terms, that you approve this emergency farm legislation.

With kindest regards and best wishes,

Respectfully,

Strom Thurmond

Strom Thurmond

ST/ed

April 25, 1975

Dear Senator:

This is to acknowledge and thank you for your letter to the President urging that he approve and sign into law H.R. 4296, the Emergency Farm Bill.

I have made sure that your letter was called to the attention of the President, and he appreciates and understands your concerns. However, I believe his decision was already made.

With kind regards,

Sincerely,

William T. Kendall
Deputy Assistant
to the President

For Farm Bill

The Honorable Dewey F. Bartlett
United States Senate
Washington, D.C. 20510

bcc w/inc to Max Friedersdorf - FYI
bcc w/inc to Jim Cannon - FYI

WTK:EF:jk

4-24

Appr HR 4296

United States Senate

SELECT COMMITTEE ON SMALL BUSINESS
(CREATED PURSUANT TO S. RES. 58, 81ST CONGRESS)
WASHINGTON, D.C. 20510

April 23, 1975

The Honorable Gerald R. Ford
President of the United States
The White House
Washington, D.C.

Dear Mr. President:

I respectfully urge you to reconsider your intention to veto the Emergency Farm Bill, H.R. 4296. I recognize and support your efforts to hold down inflationary spending, but I believe the present economic uncertainties faced by agriculture pose a greater danger than the budget increase that would accompany this measure.

As you may know, the cost of production for our farmers has increased an alarming thirty-five percent in the last two years, resulting in a major decline in farm income last year, and projections for further decline this year. The consumer's cost of farm-produced foods has increased, but higher prices certainly cannot be attributed to farmers. This is evidenced by a fifteen percent increase in the difference between prices paid to farmers, and prices paid by consumers, from the fourth quarter of 1973 to the fourth quarter of 1974.

It should be obvious that American farmers have already made great sacrifices due to inflation. I believe it would be unfair to ask for the additional sacrifice implied by a veto of this legislation.

As America's largest and most important industry, agriculture will play an increasingly vital role in the nation's progress toward economic recovery. To guarantee full production, we must assure farmers of a fair return on their investment. The emergency farm bill offers this assurance, and again, I respectfully urge you to give H.R. 4296 further consideration.

Sincerely,

Dewey F. Bartlett

Dewey F. Bartlett
U.S. Senate
OKLAHOMA

DFB/jaj

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

APR 29 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 4296 - Farm commodity price supports
Sponsor - Rep. Foley (D) Washington and 24 others

Last Day for Action

May 5, 1975 - Monday

Purpose

Increases target prices and loan and purchase levels on the 1975 crops of cotton, corn, wheat, and soybeans while providing price support for milk at 80 percent of parity with quarterly adjustments through March 31, 1976.

Agency Recommendations

Office of Management and Budget	Disapproval
Department of Agriculture	Disapproval (Veto Message attached)
Department of State	Disapproval (Informally)
Department of the Treasury	Disapproval (Informally)
Council of Economic Advisers	Disapproval
Council on Wage and Price Stability	Disapproval

Discussion

Under the current law, farm producers of wheat, feed grains (primarily corn), and cotton are eligible for Federal support in three ways:

-- Producers may borrow funds using these commodities as collateral at the lowest current Treasury interest rate (presently 6.125%). If they desire, they may forfeit this collateral in lieu of repaying the loan. The present loan levels (noted below) for wheat and corn are statutory floors which can be raised administratively, but cannot be lowered or eliminated. However, present law requires that cotton loan levels be set at 90% of the 3-year average world price. In the case of soybeans, the Secretary has administrative discretion to have a loan program and to establish the level for such loans -- soybean loan programs have been in effect for many years, but were terminated for the 1975 crop.

-- If market prices over a specified period of time average below the "target" price, producers receive a payment equal to the difference. These target prices are established in law as noted below.

-- If because of a natural disaster a producer is unable to harvest a normal crop, he is eligible for a payment equal to 1/3 of the target price.

In addition, the statutory floor for the support price of milk is not less than 75 percent of the parity price, although on January 3, 1975, the Administration announced that milk would be supported at 80 percent of the December 1974 parity price through March 31, 1976 ($7.24/cwt).

H.R. 4296 would increase loan and target prices for only the 1975 crop as follows:

		LOAN LEVELS		TARGET PRICES	
		Present	H.R. 4296	Present	H.R. 4296
Wheat	$/bu.	$1.37	$2.50	$2.05	$3.10
Corn	$/bu.	$1.10	$1.87	$1.38	$2.25
Cotton	$/lb.	$0.34	$0.38	$0.38	$0.45
Soybeans	$/bu.	$ -0-	$3.94	$ -0-	$ -0-

The enrolled bill would also provide price support for milk at not less than 80 percent of parity with quarterly adjustments to reflect changes in the index of prices paid by farmers for production items, interest, taxes, and wage rates.

The Department of Agriculture estimates that H.R. 4296 would increase fiscal year 1976 outlays by approximately $1.8 billion:

-- Of this amount $500 million would be in the form of direct payments. Over $300 million would go to cotton producers because cotton prices are already below the current target price.

-- Loans to producers would increase by about $1.3 billion largely because of the increase in the loan rate and the attractive interest rate. Most of these loans would eventually be repaid unless market prices fell to these levels. (This could easily happen in the case of cotton because the bill's new loan levels give cotton a competitive advantage over soybeans in terms of net profit per acre, and thus encourages a shift from soybean to cotton production).

-- There would be some increase, about $30 million, in dairy purchases.

In reporting to the Agriculture Committees in the House and Senate, Agriculture vigorously opposed enactment of H.R. 4296 on the grounds that it would: (a) be far too costly; (b) undesirably substitute government intervention for marketplace incentives as a guide for farm production; (c) inevitably price U.S. farm commodities out of world markets; (d) lead to Federal production controls; and (e) produce higher consumer prices. Agriculture further advised the Congress that enactment would <u>not be in accord</u> with the President's program.

However, in its report on H.R. 4296, the House Agriculture Committee argued that:

"Because of the tremendous increase in the cost of production of agricultural commodities, the legislation enacted in 1973 no longer affords the protection to the producer that is necessary to insure maximum production. According to Department of Agriculture figures, farm production expenses, at $74.8 billion for 1974 were up $10 billion from 1973. Prices paid for production items, interest, taxes, and wage rates jumped 15 percent

> last year. A huge cost increase occurred for fertilizer as prices averaged some 70 percent above 1973. Fuel prices also zoomed upward, resulting in much higher outlays by farmers. Seed prices, reflecting tight supplies, were up one-third. This increase in production expenses offset a gain in gross income and resulted in a drop of $5 billion in realized net farm income from 1973."

H.R. 4296 originally passed in the House by 259-162 and a more costly version passed in the Senate by 57-25. The Conference report was approved in the House by 248-166 and by voice vote in the Senate.

We strongly concur in Agriculture's analysis and veto recommendation. In summary, the unacceptable features of H.R. 4296 are:

-- It contradicts established Administration policy of maximum use of the marketplace.

-- It threatens to add $1.8 billion to budget outlays in 1976.

-- It is certain to be used as the point of departure for longer term legislation which will undermine market-oriented policy and further escalate farm program expenditures in subsequent years.

- It could hold U.S. prices above world levels and make the U.S. a residual supplier, thereby reducing foreign exchange earnings.
- It will almost inevitably force the Government once again to impose production controls.
- It will undoubtedly (because of production controls) result in substantial increases in food costs.

A draft Veto Message, representing a revision of the one submitted by Agriculture, has been prepared by this Office and forwarded separately for your consideration.

James T. Lynn

Director

Enclosures

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20506

April 24, 1975

Mr. J.F.C. Hyde, Jr.
Acting Assistant Director for
Legislative Reference
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Hyde:

This is in reply to your request for our views on H.R. 4296, an enrolled bill to increase target prices and loan levels on certain agricultural commodities. In our judgment, this bill contains several highly objectionable provisions.

The most objectionable feature of the bill is the increase in target prices and loan levels for cotton. The surplus of cotton is already very large, while food stocks are at low levels and need rebuilding to insure against future inflationary price rises. Higher prices for cotton would divert acreage from badly needed food crops, especially soybeans, into cotton.

We also object to the mandatory 80 percent of parity support price for milk. Although the support price is currently at this level, large and potentially burdensome stocks of dairy products are being accumulated. The Secretary of Agriculture should be free to lower the support price to 75 percent as permitted by existing law if stocks continue to accumulate.

The increased target prices and loan rates for grains and the new loan rate for soybeans are unlikely to have much impact in 1975, unless there is a very large crop and weak export demand. However, they would set a very bad precedent for 1976, since it is unlikely that Congress would permit these levels to decrease. In the event of two successive good crops, the impact on the Federal budget and on food prices to consumers could be substantial. We would nevertheless favor some increase in the loan levels for grains based on increases in production costs other than land costs. Such increases in loan levels could serve to encourage maximum production. In the event of two successive good crop years, they might lead to some Government acquisition of stocks, but such stocks might be useful in averting sharp price rises in subsequent years.

We strongly recommend that the President veto H.R. 4296 on the grounds that it would raise the price of food, curtail food production, and contribute to inflation.

Sincerely yours,

Albert Rees

Albert Rees
Director

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 24, 1975

Dear Mr. Frey:

This is in response to your request for the Council of Economic Advisers' views on H.R. 4296, which adjusts target prices, loan and purchase levels on the 1975 crops of certain agricultural crops and contains additional provisions for the price support of milk. The Council strongly recommends that the President veto this bill. If signed into law it promises to be the first step in a return to the discredited farm programs of the past. It will raise the floor under farm prices, with the potential of raising food prices to consumers and pricing us out of the world market for some agricultural commodities. Moreover, it is not in the best interest of U.S. livestock producers, and will raise budget outlays by an estimated $1.8 billion on the 1976 budget.

Sincerely,

Alan Greenspan

Mr. James Frey
Assistant Director for
Legislative Reference
Office of Management and Budget
Washington, D.C. 20503

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

April 24, 1975

Honorable James T. Lynn
Director, Office of
Management and Budget

Dear Mr. Lynn:

This report is submitted on enrolled bill H.R. 4296, "To adjust target prices, loan and purchase levels in the 1975 crops of upland cotton, corn, wheat and soybeans, to provide price support for milk at 80 percentum of parity with quarterly adjustments for the period ending March 31, 1976, and for other purposes".

The Department recommends that the President veto the bill.

This 1-year "emergency" farm bill will add $1.8 billion to government outlays for the 1975 crop alone, besides forming the basis for much greater costs in future years.

The bill, if approved, will create a greater financial hardship next year--not only on the Federal budget, but also for taxpayers, farmers and consumers through increased costs. The higher target prices in H.R. 4296 will undoubtedly become the base in 1976 and 1977 for the application of the target price escalator clause contained in the Agriculture and Consumer Protection Act of 1973.

The loan and target prices in H.R. 4296 will encourage production for an artificial market, i.e., the government, rather than for the real market, thus reversing the policy direction embodied in the agricultural price support legislation of 1970 and 1973.

A veto message is enclosed.

Sincerely,

J. Phil Campbell

J. Phil Campbell
Under Secretary

Enclosure

To the House of Representatives:

There comes a time in the conduct of public affairs when special interest and political advantage must give way to the common good.

There comes a time when a line must be drawn against fiscal excesses.

In my address to the Nation on March 29, I drew that line. I promised all Americans that except where long-range national security interests are involved, or for urgent humanitarian need, I would take action to hold our fiscal 1976 deficit to no more than $60 billion.

New spending actions which the Congress is seriously considering could easily raise the Federal deficit to a wholly unacceptable level of $100 billion.

The so-called Emergency Agricultural Act of 1975 (H.R. 4296) is one of these spending actions. It could add an estimated $1.8 billion to the Federal deficit in its first year, and, if used as a point of departure for longer-term legislation, as strongly indicated by recent congressional action, it could sharply escalate farm program budget outlays in subsequent years.

By signing this Act into law, I would not be holding the line on our fiscal 1976 deficit. My signature would undermine the successful market-oriented farm policy adopted by this Administration and the Congress. It would represent a step backward to the discredited and long since abandoned policies of a decade ago.

Therefore, I am returning H.R. 4296 without my approval.

Farm production costs have been pushed upward by the same inflationary pressures that have affected other industries. At the same time, demand for certain farm products has slackened due to recession. The index of prices paid by farmers has increased 10 percent above year-ago levels. In contrast, the index of prices received by farmers has declined for the past five months, and is now 15 percent below year-earlier levels. Cotton and livestock producers, in particular, have been hard hit.

To help relieve these economic difficulties, I am today directing the Secretary of Agriculture to take action to increase price support loan rates for wheat, corn and other feed grains.

This action follows a number of positive steps by this Administration to assist farmers. The 1976 wheat acreage allotment was recently increased to 61.6 million acres, up 8 million acres from the 1975 allotment. This provides additional target price and disaster protection for wheat producers. As provided for by current legislation, we have increased the 1975-crop cotton price support loan rate by 9 cents per pound.

We recently announced an increase in the price support level for milk, which, combined with more favorable feed prices, should improve the income situation for dairy producers.

Within the past several days we have completed arrangements with the European Community under which they agreed to cease exporting industrial cheese into the U.S. market with the aid of export subsidies. We have impressed upon the Europeans that they cannot expect to dump their surplus dairy products into the U.S. market at cut-rate prices. At the same time we have worked out a way which enables the Europeans to continue selling us high quality table cheese. This was a satisfactory solution to a difficult problem. It has enabled us to keep on satisfactory trading terms with our best export customer for American farm products.

We have taken action to protect our cattle producers against a potential flood of beef imports from abroad. The Department of State is about to complete negotiations with 12 countries limiting their exports of beef to this country in 1975. These voluntary export restraint agreements are intended to keep imports subject to the Meat Import Law within 1,182 million pounds.

We have moved aggressively in the past several months to implement food assistance programs under the Agricultural Trade Development and Assistance Act (P.L. 480). The volume exported under this program is expected to reach nearly 5.5 million tons of food in this fiscal year, including 4 million tons of wheat. This will be 70 percent higher than a a year ago. Wheat shipments will be more than double last year's level.

Further liberalization of world agricultural trade is one of our prime objectives at the multilateral trade negotiations which have just begun in Geneva.

In addition to these actions, producers deserve all possible help through existing Government programs for the extension of credit and other forms of financial assistance. But, primarily, the answer to their difficulties lies in prompt, responsible actions by this Government in dealing with recession and inflation.

In contrast to the development of current legislation--the Agriculture and Consumer Protection Act of 1973--which was the result of considerable thought and study, H.R. 4296 was hastily conceived with a minimum of hearings and without sufficient opportunity for consumers and taxpayers to have a voice in its preparation. As the name of the bill implies, it was prepared in an attempt to redress an "emergency" situation in the farm sector by means of excessive and inconsistent increases in the price support levels for wheat, feed grain, cotton and soybeans. Many farmers oppose this bill. Its passage is not supported by two of the nation's largest farm organizations--The American Farm Bureau Federation and The National Farmers Union.

Farmers have made their plans, bought their seed and many are well into their planting season. These plans have obviously been completed without any dependence on the "quick fix" envisioned by the authors of H.R. 4296.

The direct effect on consumer prices in the next year would be small. However, the long-range effect of this bill would tend to push both consumer prices and federal budget outlays higher, making our fight against inflation more difficult.

This bill would ultimately lead to paying farmers not to grow crops, resulting in loss of jobs in food-related industries because of cutbacks in farm production. It would induce farmers to grow more cotton, which is already in surplus, and less soybeans, which are needed for food. The bill would jeopardize the competitive position of U.S. cotton in world markets, and would create a price umbrella for farmers in other nations who compete with U.S. farmers, leading to deterioration of our international trade position.

Our farmers have responded magnificently during the past several years in the production of food and fiber. This has made agriculture our number one earner of foreign exchange. Most farmers are again going for all-out production this year. They are responding well under very trying circumstances. They deserve and will receive my support for a vigorous export policy for their products. Last year we unfortunately had to ask one of our new customers to curtail its purchases of American grains. For a short time we also operated a voluntary prior approval system for export sales of grains and soybeans. We do not intend to resort to either of these measures again. Our farmers deserve and will receive unfettered access to world export markets.

Current farm legislation is working successfully. In spite of the financial difficulties many farmers are experiencing, farm exports, farm operators' net income -- in total -- and total farm cash receipts are at near-record levels. The government is out of the farming business, and should stay out, leaving the farmer free to earn his income from the marketplace, not from the Federal Treasury.

The Act that I am vetoing is anti-consumer, anti-farmer, anti-taxpayer and anti-humanitarian:

--It is anti-consumer because it will result in unwanted crops, produced for Government storage instead of for the demands of the marketplace.

--It is anti-farmer because it will inevitably price U.S. farm commodities out of world markets and lead to production cutbacks, which, in turn, will make our farms less efficient by spreading fixed costs over fewer producing acres.

--It is anti-taxpayer because the potential price-tag would run into billions of dollars a year for deficiency payments to farmers, for paying farmers not to grow crops, for export subsidies, for crop loans, and for the storage of huge inventories of government-owned or government-controlled farm commodities.

--It is anti-humanitarian because once our export markets are lost and our farmers are denied the profits of full production, then world consumers will face higher food costs brought about by reduced world supplies.

By signing this Act into law, I would take economic independence away from farmers on the one hand, and, on the other, burden taxpayers with massive, accelerating Federal expenditures.

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THE WHITE HOUSE

WASHINGTON

April 29, 1975

MEMORANDUM FOR WARREN HENDRIKS

FROM: JUDY JOHNSTON

SUBJECT: Ag Veto Message

Bob Hormats requested that two more changes be made to the message.

-- p.3 2nd paragraph, 2nd line. "with the European Community to remove (rather than "end") the export....

-- p.4 2nd paragraph, 6th line, after sentence ending products. Add "It is our policy to do everything possible to avoid the use of export restraints in the future."

THE WHITE HOUSE

WASHINGTON

April 28, 1975

MEMORANDUM FOR THE STAFF SECRETARY

FROM: MAX L. FRIEDERSDORF M.F.

SUBJECT: Veto Message - H.R.4296 the Emergency Agricultural Act of 1975.

I recommend the substance of 2A be retained.

Although I believe a veto can probably be sustained without raising the loan rates, failure to do so will erode our strength to a dangerous level.

A whip check of hardcore support late today without raising the loan rates, shows us with 153 votes, only 8 above our 145 needed to sustain.

Seventy votes against the bill were Democrats, and many will be susceptible to switching against us if the vote is close.

It is my understanding that the loan rate increases recommended by Secretary Butz would be well below the market structure, and not affect outlays.

I believe the loan rate increase would insure a large Presidential victory on the veto and should be included in the message.

[4/29/75]

A—

We came up with a solution [redacted] that recognizes the farmers problem but makes no commitment to the expenditure of other Federal Funds

Your message might include the following language:

THE WHITE HOUSE

WASHINGTON

April 29, 1975

MEETING ON FARM VETO MESSAGE

Tuesday, April 29, 1975
The Cabinet Room
5:00 p.m.

From: Jim Cannon

I. PURPOSE

To review and obtain your concurrence on a response to a new development related to your Farm Veto Message.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

You recently reviewed Bill Seidman's option paper of April 24 on Farm Bill Alternatives (Tab A) and decided to veto the bill and not do anything about the loan levels.

Unfortunately yesterday we learned that there is a misconception on the Hill that you are going to couple your veto with some kind of action on loan levels.

Max Friedersdorf and Secretary Butz report that there would be a serious risk that a veto would be overriding if a veto message makes no mention of loan levels. Max's latest vote count to sustain a veto shows:

52	Democrats
103	Republicans
155	Total

We might pick up as many as 18 votes that are now uncommitted; but we could lose a substantial number of the Democrats if the caucus makes a strong effort to override.

In view of this new development, Max Friedersdorf, Earl Butz, Bill Seidman, Jack Marsh, Jim Lynn and I met this morning to discuss this problem. We came up with a solution that recognizes the farmers problem but makes no commitment to the expenditure of other Federal Funds

Your message might include the following language:

> To guard against any possible adverse economic effects from further price deterioration, I am directing the Secretary of Agriculture to be prepared to make desirable adjustments in price support loan rates for wheat, corn, and other feed grains.

Max and Earl Butz are reasonably certain that a veto can be sustained if this language is included.

III PARTICIPANTS

The Vice President
Secretary Butz
Counsellor Hartmann
Counsellor Marsh
Max Friedersdorf
Alan Greenspan
Jim Lynn
Paul O'Neill
Jim Cannon
Bill Seidman
Don Rumsfeld

IV PRESS PLAN

To be announced

April 29, 1975

To the House of Representatives:

I am returning without my approval H.R. 4296, referred to as the Emergency Agricultural Act of 1975. Although the aim of this bill is laudable, its results would be ~~counter~~ COSTLY TO CONSUMERS AND ~~productive for farmers, other~~ taxpayers, and DAMAGING TO ~~for~~ America's economic recovery and world market position.

~~The bill would remove a considerable amount of economic independence from farmers while burdening consumers with higher prices and boosting the already overly-inflated Federal deficit.~~

Approval of this bill would, therefore, not be in the public interest.

In the conduct of the Government's fiscal affairs, a line must be drawn against excesses. I drew that line in my address to the Nation on March 29. I promised all Americans that, except where long-range national security interests, energy matters, or urgent humanitarian needs were involved, I would take action to hold our fiscal year 1976 deficit to no more than $60 billion.

New spending programs which the Congress is considering could easily raise the Federal deficit to an intolerable level of $100 billion. This must not happen.

H.R. 4296 is an example of ~~an intolerably high~~ Increased spending ~~program~~ which is not essential. In fiscal year 1976, it could add an estimated $1.8 billion to the Federal deficit. If used as a point of departure for longer-term legislation -- as was strongly indicated during its consideration -- it could lead to an escalation of farm program subsidies in succeeding years.

Approval of this bill would undermine the successful market-oriented farm policy adopted by this Administration and the Congress. It is a step backward toward totally discredited policies.

Prospects for farmers, it is true, are not as bright this year as in the recent past. Farm production costs have been pushed upward by the same inflationary pressures that have affected other industries. At the same time, demand for certain farm products has slackened because of the recession.

This Administration recognizes farmers have financial difficulties due to this cost-price squeeze and has taken a number of positive steps to assist farmers. The 1976 wheat acreage allotment was recently increased by 8 million acres to 61.6 million acres. This action provides wheat producers with additional target price and disaster protection. We have also increased the 1975 crop cotton price support loan rate by 9 cents a pound. And we recently announced an increase in the price support level for milk, which, combined with easing feed prices, should assist dairy producers.

Within the past several days, we have completed negotiations with the European Community to remove the export subsidies on industrial cheese coming here -- a step that ensures that surplus dairy products will not be sold in the U.S. market at cut-rate prices. At the same time, we have worked out arrangements which enable the Europeans to continue selling us high-quality table cheese. This solution has enabled us to keep on mutually agreeable trading terms with out best customers for American farm exports.

We have also taken action to protect our cattle producers against a potential flood of beef imports from abroad. The Department of State is completing negotiations with 12 countries limiting their 1975 exports of beef to this country. These voluntary export restraint agreements are intended to keep imports subject to the Meat Import Law to less than 1,182 million pounds.

If any unforeseen price deterioration calls for such action, I am directing the Secretary of Agriculture ~~to be prepared~~ to make ~~desirable~~ adjustments in price support loan rates for wheat, corn, Soy beans. and other feed grains. It is our expectation, however, that market prices for grains will remain well above loan rates and target prices in the coming year.

~~In contrast to the development of the Agriculture and Consumer Protection Act of 1973 -- which was the result of considerable thought and study -- H.R. 4296 was hastily conceived with inadequate hearings and without sufficient opportunity for consumers and taxpayers to have a voice in its preparation.~~

Most farmers have already made their plans and bought their seed. Many are well into their planting season. These plans have obviously been completed without any dependence on the provisions of H.R. 4296.

In the long haul, this bill ultimately would lead to constraints on production, resulting in loss of jobs in food-related industries. It would induce farmers to grow more cotton -- already in surplus -- and less soybeans -- needed for food. The bill would jeopardize the competitive position of our cotton in world markets.

American farms have responded magnificently during the past several years to produce food and fiber for this Nation and the world. This has made agriculture our leading source of foreign exchange. This year, despite very trying circumstances, most farmers are again going for all-out production. They have my support for a vigorous export policy for their products. I, recognize that agricultural exports have been restrained twice in the past two years. We have ~~now~~ eliminated all restrictions on exports and ~~We~~ we are determined not to have them again. ~~to do everything possible to avoid resorting to such restraints in the future.~~ Our farm products must have unfettered access to world markets.

~~The act, in short,~~ is anti-consumer, anti-farmer, anti-taxpayer, and even anti-humanitarian:

--It is anti-consumer because it would cause higher prices and result in crops produced for Government storage instead of for the demands of the marketplace.

--It is anti-farmer because it would price our farm commodities out of world markets, and lead to cutbacks in production.

--It is anti-taxpayer because of the potential cost of subsidies for export purposes, for crop loans, for storage of inventories of Government-controlled farm commodities, and for not growing crops.

--It is anti-humanitarian because once our export markets are cut and our farmers are denied the profits of full production, then consumers in a world stalked by hunger would face higher food costs caused by reduced world supplies.

I cannot~~, in good conscience,~~ approve this act.

I return it herewith.

This Administration will act to ensure the farmer his fair share. It will not act to distort his markets. We must hold the budget line if we are all to enjoy the benefit of a prosperous, stable, non-inflationary

April 29, 1975

To the House of Representatives:

I am returning without my approval H.R. 4296, referred to as the Emergency Agricultural Act of 1975. Although the aim of this bill is laudable, its results would be ~~counter-productive for farmers, other~~ COSTLY TO CONSUMERS AND taxpayers, and ~~for~~ DAMAGING TO America's economic recovery and world market position.

~~The bill would remove a considerable amount of economic independence from farmers while burdening consumers with higher prices and boosting the already overly-inflated Federal deficit.~~

Approval of this bill would, therefore, not be in the public interest.

In the conduct of the Government's fiscal affairs, a line must be drawn against excesses. I drew that line in my address to the Nation on March 29. I promised all Americans that, except where long-range national security interests, energy matters, or urgent humanitarian needs were involved, I would take action to hold our fiscal year 1976 deficit to no more than $60 billion.

New spending programs which the Congress is considering could easily raise the Federal deficit to an intolerable level of $100 billion. This must not happen.

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H.R. 4296 is an example of ~~an intolerably high~~ Increased spending ~~program~~. In fiscal year 1976, it could add an estimated $1.8 billion to the Federal deficit. If used as a point of departure for longer-term legislation -- as was strongly indicated during its consideration -- it could lead to an escalation of farm program subsidies in succeeding years.

Approval of this bill would undermine the successful market-oriented farm policy adopted by this Administration and the Congress. It is a step backward toward totally discredited policies.

Prospects for farmers, it is true, are not as bright this year as in the recent past. Farm production costs have been pushed upward by the same inflationary pressures that have affected other industries. At the same time, demand for certain farm products has slackened because of the recession.

This Administration recognizes farmers have financial difficulties due to this cost-price squeeze and has taken a number of positive steps to assist farmers. The 1976 wheat acreage allotment was recently increased by 8 million acres to 61.6 million acres. This action provides wheat producers with additional target price and disaster protection. We have also increased the 1975 crop cotton price support loan rate by 9 cents a pound. And we recently announced an increase in the price support level for milk, which, combined with easing feed prices, should assist dairy producers.

Within the past several days, we have completed negotiations with the European Community to remove the export subsidies on industrial cheese coming here -- a step that ensures that surplus dairy products will not be sold in the U.S. market at cut-rate prices. At the same time, we have worked out arrangements which enable the Europeans to continue selling us high-quality table cheese. This solution has enabled us to keep on mutually agreeable trading terms with out best customers for American farm exports.

We have also taken action to protect our cattle producers against a potential flood of beef imports from abroad. The Department of State is completing negotiations with 12 countries limiting their 1975 exports of beef to this country. These voluntary export restraint agreements are intended to keep imports subject to the Meat Import Law to less than 1,182 million pounds.

If any unforeseen price deterioration calls for such action, I am directing the Secretary of Agriculture to be prepared to make desirable adjustments in price support loan rates for wheat, corn, and other feed grains. It is our expectation, however, that market prices for grains will remain well above loan rates and target prices in the coming year.

~~In contrast to the development of the Agriculture and Consumer Protection Act of 1973 -- which was the result of considerable thought and study -- H.R. 4296 was hastily conceived with inadequate hearings and without sufficient opportunity for consumers and taxpayers to have a voice in its preparation.~~

Most farmers have already made their plans and bought their seed. Many are well into their planting season. These plans have obviously been completed without any dependence on the provisions of H.R. 4296.

In the long haul, this bill ultimately would lead to constraints on production, resulting in loss of jobs in food-related industries. It would induce farmers to grow more cotton -- already in surplus -- and less soybeans -- needed for food. The bill would jeopardize the competitive position of our cotton in world markets.

American farm~~s~~ers have responded magnificently during the past several years to produce food and fiber for this Nation and the world. This has made agriculture our leading source of foreign exchange. This year, despite very trying circumstances, most farmers are again going for all-out production. They have my support for a vigorous export policy for their products. I recognize that agricultural exports have been restrained twice in the past two years. We are determined to do everything possible to avoid resorting to such restraints in the future. Our farm products ~~must~~ have unfettered access to world markets.

The act, in short, is anti-consumer, anti-farmer, anti-taxpayer, and even anti-humanitarian:

--It is anti-consumer because it would cause higher prices and result in crops produced for Government storage instead of for the demands of the marketplace.

--It is anti-farmer because it would price our farm commodities out of world markets, and lead to cutbacks in production.

--It is anti-taxpayer because of the potential cost of subsidies for export purposes, for crop loans, for storage of inventories of Government-controlled farm commodities, and for <u>not</u> growing crops.

--It is anti-humanitarian because once our export markets are cut and our farmers are denied the profits of full production, then consumers in a world stalked by hunger would face higher food costs caused by reduced world supplies.

I cannot, ~~in good conscience,~~ approve this act. I return it herewith.

This Administration will act to ensure the farmer his fair share. It will not act to distort his market. We must hold the budget line if we are all to enjoy the benefit of a prosperous, stable, non-inflationary economy.

April 29, 1975
6:00 p.m. DRAFT

To the House of Representatives:

I am returning without my approval H.R. 4296, referred to as the Emergency Agricultural Act of 1975. Although the aim of this bill is laudable, its results would be costly to consumers and taxpayers, and damaging to America's economic recovery and world market position.

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New spending programs which the Congress is considering could easily raise the Federal deficit to an intolerable level of $100 billion. This must not happen.

H.R. 4296 is an example of increased spending which is not essential. In fiscal year 1976, it could add an estimated $1.8 billion to the Federal deficit. If used as a point of departure for longer-term legislation -- as was strongly indicated during its consideration -- it could lead to an escalation of farm program subisdies in succeeding years.

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This Administration will act to ensure the farmer his fair share. It will not act to distort his market. We must hold the budget line if we are all to enjoy the benefit of a prosperous, stable, non-inflationary economy.

I cannot approve this act. I return it herewith.

THE WHITE HOUSE

WASHINGTON

April 29, 1975

MEETING ON FARM VETO MESSAGE
Tuesday, April 29, 1975
The Cabinet Room
5:00 p.m.

From: Jim Cannon

I. PURPOSE

To review and obtain your concurrence on a response to a new development related to your Farm Veto Message.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

You recently reviewed Bill Seidman's option paper of April 24 on Farm Bill Alternatives (Tab A) and decided to veto the bill and not do anything about the loan levels.

Unfortunately yesterday we learned that there is a misconception on the Hill that you are going to couple your veto with some kind of action on loan levels.

Max Friedersdorf and Secretary Butz report that there would be a serious risk that a veto would be overridden if a veto message makes no mention of loan levels. Max's latest vote count to sustain a veto shows:

52	Democrats
103	Republicans
155	Total

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In view of this new development, Max Friedersdorf, Earl Butz, Bill Seidman, Jack Marsh, Jim Lynn and I met this morning to discuss this problem. We came up with an approach that can help but makes no commitment to the expenditure of further Federal Funds.

Your message might include the following language:

> If any unforeseen price deterioration calls for such action, I am directing the Secretary of Agriculture ~~to be prepared~~ to make desirable adjustments in price support loan rates for wheat, corn, ~~and~~ other feed grains, and Soybeans.

Max and Earl Butz are reasonably certain that a veto can be sustained if this language is included.

B. Participants

The Vice President	Alan Greenspan
Secretary Butz	Jim Lynn
Counsellor Hartmann	Paul O'Neill
Counsellor Marsh	Jim Cannon
Max Friedersdorf	Bill Seidman
	Don Rumsfeld

C. Press Plan

To be announced.

A

THE WHITE HOUSE

WASHINGTON

April 24, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: FARM BILL ALTERNATIVES

Background

Early in 1973 the Nixon Administration proposed to the Congress that Federal programs relating to wheat, feed grains, and cotton be limited to providing loans at rates ($ per unit of production) well below current and anticipated market prices. This would have allowed the market to operate with minimum Government interference and yet preclude exceptionally low prices. The proposed programs were to replace older programs under which producers were paid to restrict production.

During the period of consideration, market prices moved up quickly and the outlook was one of continued high demand for food. The Congress rejected that approach and substituted a program embodying loans and target prices. The loan levels were to perform essentially the same function as proposed by the Executive Branch. All of the producer's production would be eligible for loans. The target prices were designed to provide incentives to producers to meet the projected increased demand for food. Only those producers with an acreage allotment (based upon planting history) would receive such payments and only to the extent of the normal production on their allotment.

The Executive Branch originally resisted this approach since it meant continued Federal involvement. Objections centered on the high target prices over the life of the bill and the "escalator" provision which would have increased target prices each year in line with increases in the index of prices paid by farmers for production items including interest, taxes, and wages.

The target price concept eventually was accepted by the Executive Branch and a bill agreed upon in the summer of 1973. The "escalator" was modified to provide adjustments for increased yields to apply only to 1976 and subsequent crops (not the 1975 crop) and the target prices were lowered. Meanwhile, domestic prices rose well above projected target prices largely because of a worldwide economic boom, a fall off in world agricultural production, and increased U.S. exports (partly due to devaluation of the dollar).

The impact of these events on producers was initially favorable. Government surpluses overhanging the market were eliminated. Export demand surged. Farm product prices rose dramatically.

Spiraling agricultural prices focused attention on the value of grain reserves as a cushion against supply shortages. This was a major issue at the World Food Conference in Rome. The U.S. Government is in the process of developing a policy with respect to the appropriate level of food security and how the burden should be shared. Currently, importers, facing favorable supply prospects, have shown little interest in accumulating grain stocks. An increase in Federal support through price guarantees would increase the risk of the Federal Government acquiring stocks and thus reduce the interest of other nations in sharing the burden of carrying reserves.

The supply/demand situation today is vastly changed from a year ago. Farm prices are retreating from their former high levels, with some prices (wheat, soybeans, cattle) having fallen precipitiously.

Meanwhile, production costs are at record levels since current target prices and loan rates were established in 1973. Production costs, as measured by the index of prices, an "average" of farm costs paid for production items, has increased 16 percent since 1973. This index, the escalator defined in the 1973 Act, will be applied to the 1976 and 1977 crops. However, costs of producing grain have risen much more steeply than "average" farm costs since large quantities of fuel and fertilizer are required relative to other inputs. Details for a couple of grain producing areas are shown in the table below:

Wheat, Kansas, E. Central	Unit	1973	1975	Increase $	Increase %
Variable costs	$/bu.	0.57	1.05	0.48	84
Total costs:					
excluding land	$/bu.	0.95	1.54	0.59	62
including land	$/bu.	1.59	2.50	0.91	57

Corn, N. Indiana	Unit	1973	1975	Increase $	Increase %
Variable costs	$/bu.	0.48	0.81	0.33	69
Total costs:					
excluding land	$/bu.	0.72	1.12	0.40	56
including land	$/bu.	1.15	1.79	0.64	56

Producers, particularly livestock, in 1975 are facing a cut in income for the second year in a row.

Year	Gross Farm Income	Production Expenses	Realized Net Income
	(Billions of $)		
1970	58.6	44.6	14.0
1971	60.6	47.6	13.0
1972	69.9	52.4	17.5
1973	97.0	64.7	32.2
1974	102.0	74.8	27.2
1975 est.	94-98	75-77	19-21

The enrolled Farm Bill, H.R. 4296, is the congressional answer to the current situation. It would increase prices as follows:

	Unit	Target Price Current Law	Target Price H.R. 4296	Loan Rate Current Law	Loan Rate H.R. 4296
Wheat	$/bu.	2.05	3.10	1.37	2.50
Corn	$/bu.	1.38	2.25	1.10	1.87
Cotton	$/bu.	.38	.45	.34	.38
Soybeans	$/bu.	--	--	--	3.94

The following is the vote tabulation on the bill:

	House For	House Against	Senate For	Senate Against
Original bill.........	229	162	57	25
Conference bill.......	248	166	Voice approval	

The House vote on the Conference bill was 28 votes short of the number needed to override a veto.

Issue: What, if anything, should the Administration do, if H.R. 4296 is vetoed.

Since it is unlikely that any action would have a significant impact on this year's production, alternative actions should be viewed largely in terms of their impact on (1) the votes to override a veto; (2) 1976 outlays; (3) future years' production, prices and budget outlays; (4) the likelihood that Congress, in an election year, will attempt to raise supports even higher.

Option 1: Do nothing beyond vetoing the bill.

This would leave the loan levels at the minimum specified by the 1973 Act. Target prices would be unchanged with the escalator applied to the 1976 and 1977 crops.

Pros

1. Additional incentives to increase production are not needed (at least in 1975). The acreage farmers intend to plant will, given normal weather, exceed market demands and add to stocks. A very large winter wheat crop already seems assured.

2. Any increase in loan levels will add to 1976 budget outlays.

3. An increase in Federal support through price guarantees would increase the risk of the Federal Government acquiring stocks and thus lessen the interest of other nations in sharing the burden of carrying reserves.

4. Farmers could protect themselves by using the futures market.

Cons

1. The Administration could appear insensitive to the cost/price squeeze faced by farmers, especially since the Government has asked for all-out production.

2. Could lead to further legislative efforts, to pass a farm bill for 1975, or, although unlikely, to a veto override.

3. Loan rates could be raised moderately without significant economic consequences, since prices are expected to average higher than any loan levels that would be selected, and since, under such circumstances, the loans would be repaid.

Option 2: Increase loan levels to a point unlikely to result in the CCC accumulating quantities of wheat and feed grains.

The wheat loan rate would be raised from $1.37 to $1.75 ($2.50 in the bill), and corn from $1.10 to $1.50 ($1.87 in the bill).

Pros

1. Would cover most producer's total costs of production, excluding land, by a wide margin.

2. Could offset pressures to override a Presidential veto.

3. Narrows spread between wheat and corn prices and makes wheat more competitive in feed markets during times of large surplus.

Cons

1. Would increase 1976 budget outlays by about $75 million.

2. Continues a pattern of the Administration acting when Congress passes unacceptable bills.

3. Adds to degree of indexation in the economy making control of inflation more difficult.

Option 3: Raise the loan rates to levels the Secretary of Agriculture believes are the minimum acceptable to congressional representatives of wheat and feed grain producers.

This would raise the wheat loan from $1.37 to $2.00 (compared to $2.50 in the bill and $1.75 in Option 2) and corn from $1.10 to $1.50 (compared to $1.87 in the bill but same as Option 2).

Pros

1. Would give wheat producers substantial protection since the levels would significantly exceed production costs, excluding land.

2. Could offset pressures to override a Presidential veto.

Cons

1. Would increase 1976 budget outlays by about $90 million.

2. Increases risk of expanded use of loan program and higher budget outlays, especially if export demand weakens.

3. Widens spread between wheat and corn prices, and makes wheat uncompetitive in feed market during time of large surplus.

Option 4: Propose legislation applying the escalator to the 1975 crop target prices for wheat and feed grains.

Wheat would be increased from $2.05 to $2.51 ($3.10 in bill). Corn would be increased from $1.38 to $1.68 ($2.25 in bill). Cotton would not be increased since targets are already above market prices.

Pros

1. Would be in harmony with the spirit of the 1973 Act since it would capture most of the bulge in production costs as measured by the production cost index.

2. The target prices for grains would be well below the market price anticipate *if* exports continue at a high level.

Cons

1. Would appear to discriminate against cotton producers.

2. Conflicts with past Administration policy not to negotiate higher target prices.

3. Increases the risk of target prices exceeding future market prices.

4. Will reopen the issue to legislative logrolling.

5. Would add $40 million to outlays for disaster payments (tied to the target price).

Option 5: Propose legislation increasing target prices to the level of market prices anticipated for 1975 crops, assuming low exports.

Wheat would be increased from $2.05 to $2.50 ($3.10 in bill). Corn would be increased from $1.38 to $2.00 ($2.25 in bill). Cotton would not change.

Pros

1. With target prices tied to minimum market expectations, the likelihood of deficiency payments for wheat would be reduced.

2. Producers would be protected to the low end of Government price expectations.

Cons

1. Would increase 1976 budget outlays by about $60 million.

2. Budget exposure would be further increased for 1977 and 1978 when market prices are expected to fall.

3. Would appear to discriminate against cotton producers.

Decision

Option 1	______	Do nothing beyond vetoing the bill. Supported by Treasury, CEA, OMB, CIEP, Marsh
Option 2	______	Increase loan levels to a point unlikely to result in the CCC accumulating quantities of wheat and feed grains.

Option 3 ______ Raise the loan rates to levels the Secretary of Agriculture believes are the minimum acceptable to congressional representatives of wheat and feed grain producers.
Supported by USDA, Domestic Council

Option 4 ______ Propose legislation applying the escalator to the 1975 crop target prices for wheat and feed grains.

Option 5 ______ Propose legislation increasing target prices to the level of makret prices anticipated for 1975 crops, assuming low exports.

CIEP recommends a veto on the farm bill and leaving the loan rates unchanged on economic grounds but making clear in a veto message our commitment to a strong export oriented, open market policy.

OMB wishes to qualify their vote for Option 1 with the following statement. On the single economic merits, OMB recommends the bill be vetoed and that no changes be proposed in target prices or loan rates. However, in coming to a decision as to what course to follow, assuming a veto, OMB believes careful thought should be given to the following considerations:

Assuming that the Farm Bill is vetoed, and that the veto is sustained, the followup question must be: What action is the Congress then likely to take? If, as we suspect, the Congress chooses to try again, then we need to assess the likelihood of the Congress being able to pass a new bill that is "veto-proof" because its sponsors lower the target price increases sufficiently to shift the necessary votes to their side.

If the Administration shows no movement in connection with successfully sustaining a veto on the first bill we could be putting ourselves in a position of opposition to <u>any</u> increases; a position which we probably cannot sustain.

This line of reasoning suggests that we may want to at least <u>consider</u> the possibility of advocating an increase in target prices and loan rates; say to levels consistent with the change in production costs since the current law was enacted in 1973. If this kind of approach could be coupled with an agreement from the Committees to enact these changes as part of a <u>three year</u> bill, we would be protected against even greater increases in 1976.

THE WHITE HOUSE

WASHINGTON

April 29, 1975

MEETING ON FARM VETO MESSAGE
Tuesday, April 29, 1975
The Cabinet Room
5:00 p.m.

From: Jim Cannon

I. PURPOSE

To review and obtain your concurrence on a response to a new development related to your Farm Veto Message.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

You recently reviewed Bill Seidman's option paper of April 24 on Farm Bill Alternatives (Tab A) and decided to veto the bill and not do anything about the loan levels.

~~Unfortunately~~ Yesterday we learned that there is a misconception on the Hill that you are going to couple your veto with some kind of action on loan levels.

Max Friedersdorf and Secretary Butz report that there would be a serious risk that a veto would be overridden if a veto message makes no mention of loan levels. Max's latest vote count to sustain a veto shows:

52	Democrats
103	Republicans
155	Total

We might pick up as many as 18 votes that are now uncommitted; but we could lose a substantial number of the Democrats if the caucus makes a strong effort to override.

In view of this new development, Max Friedersdorf, Earl Butz, Bill Seidman, Jack Marsh, Jim Lynn and I met this morning to discuss this problem. We came up with an approach that can help but makes no commitment to the expenditure of further Federal Funds.

Your message might include the following language:

> If any unforeseen price deterioration calls for such action, I am directing the Secretary of Agriculture to be prepared to make desirable adjustments in price support loan rates for wheat, corn, and other feed grains.

Max and Earl Butz are reasonably certain that a veto can be sustained if this language is included.

B. Participants

The Vice President	Alan Greenspan
Secretary Butz	Jim Lynn
Counsellor Hartmann	Paul O'Neill
Counsellor Marsh	Jim Cannon
Max Friedersdorf	Bill Seidman
	Don Rumsfeld

C. Press Plan

To be announced.

A

THE WHITE HOUSE

WASHINGTON

April 24, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: FARM BILL ALTERNATIVES

Background

Early in 1973 the Nixon Administration proposed to the Congress that Federal programs relating to wheat, feed grains, and cotton be limited to providing loans at rates ($ per unit of production) well below current and anticipated market prices. This would have allowed the market to operate with minimum Government interference and yet preclude exceptionally low prices. The proposed programs were to replace older programs under which producers were paid to restrict production.

During the period of consideration, market prices moved up quickly and the outlook was one of continued high demand for food. The Congress rejected that approach and substituted a program embodying loans and target prices. The loan levels were to perform essentially the same function as proposed by the Executive Branch. All of the producer's production would be eligible for loans. The target prices were designed to provide incentives to producers to meet the projected increased demand for food. Only those producers with an acreage allotment (based upon planting history) would receive such payments and only to the extent of the normal production on their allotment.

The Executive Branch originally resisted this approach since it meant continued Federal involvement. Objections centered on the high target prices over the life of the bill and the "escalator" provision which would have increased target prices each year in line with increases in the index of prices paid by farmers for production items including interest, taxes, and wages.

The target price concept eventually was accepted by the Executive Branch and a bill agreed upon in the summer of 1973. The "escalator" was modified to provide adjustments for increased yields to apply only to 1976 and subsequent crops (not the 1975 crop) and the target prices were lowered. Meanwhile, domestic prices rose well above projected target prices largely because of a worldwide economic boom, a fall off in world agricultural production, and increased U.S. exports (partly due to devaluation of the dollar).

The impact of these events on producers was initially favorable. Government surpluses overhanging the market were eliminated. Export demand surged. Farm product prices rose dramatically.

Spiraling agricultural prices focused attention on the value of grain reserves as a cushion against supply shortages. This was a major issue at the World Food Conference in Rome. The U.S. Government is in the process of developing a policy with respect to the appropriate level of food security and how the burden should be shared. Currently, importers, facing favorable supply prospects, have shown little interest in accumulating grain stocks. An increase in Federal support through price guarantees would increase the risk of the Federal Government acquiring stocks and thus reduce the interest of other nations in sharing the burden of carrying reserves.

The supply/demand situation today is vastly changed from a year ago. Farm prices are retreating from their former high levels, with some prices (wheat, soybeans, cattle) having fallen precipitiously.

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