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THE WHITE HOUSE

WASHINGTON

Last Day: January 30

January 27, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON *Jim*

SUBJECT: Enrolled Bill S. J. Res. 121:
Milk Price Support

The purpose of this memorandum is to obtain your decision on whether to sign or veto this bill.

A decision must be made by Friday, January 30.

The Bill

S. J. Res. 121 would make two changes in the present milk price support law: First, from enactment through March 31, 1978, the support price for milk would be at 85 percent of parity. Second, the support price would be adjusted quarterly to reflect changes in the production costs of milk farmers.

The bill is more fully discussed in the Enrolled Bill Memorandum at Tab A.

Present Support Program

Currently, the support price for milk is set administratively by the Secretary of Agriculture at from 75 to 90 percent of parity. Adjustments within this range can be made at anytime.

USDA is presently supporting milk at \$7.71 per hundred-weight ("cwt") --- 80 percent of parity as of October 1, 1975. During 1975, milk price supports were increased twice: On October 2, 1975, the support price was increased to its present level from \$7.24 per cwt. Previously, on January 3, 1975, the support price had been increased from \$6.57 to \$7.24 per cwt.

*Vetoed
1/30/76
Delivered to Secretary of
the Senate - 1/30/76 - 8:25 pm*

Secretary Butz has stated that he will review the dairy situation semiannually and make any price support changes he finds necessary.

Congressional Situation

This is the third attempt by Congress in fourteen months to increase milk price supports. You vetoed both the December 1974 attempt to raise price supports to 85 percent of parity and the April 1975 "farm bill", which provided for support prices at 80 percent of parity with quarterly adjustments.

Prior to passage of S. J. Res. 121, the Administration (USDA, OMB and Office of Consumer Affairs) indicated clear opposition; nevertheless, the bill passed the House by 307-111 and the Senate by a voice vote.

USDA is very pessimistic about the chance of sustaining a veto in the Senate and uncertain about the chances in the House. Max Friedersdorf concurs with this assessment.

Sign or Veto Arguments

A. Arguments in Favor of Signing S. J. Res. 121

1. This bill would please milk producers and their Congressional representatives by assuring price supports at a higher level than at present and by providing for quarterly adjustments to reflect inflation in production costs.
2. "This should be helpful in maintaining milk production to meet the needs of consumers for future periods." (House Agriculture Committee)

B. Arguments in Favor of Veto of S. J. Res. 121

1. It would be inflationary and particularly hurt low income families. USDA estimates that the higher support prices would increase consumer dairy product costs by \$1.38 billion over the next two years --- or about 3¢ per half gallon of milk at retail.

2. "It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased purchases of dairy products under the milk support program and in the build up of large, costly and farm-price depressing government surpluses". (USDA)
3. Estimated government price support outlays would increase \$180 million during the 1976-1977 marketing year and \$350 million during the 1977-1978 year.
4. This would be consistent with your previous vetoes of the two related price support measures.

Recommendation

The Department of Agriculture (Butz), Jim Lynn, Bill Seidman, Max Friedersdorf, Counsel's Office (Lazarus), CEA (MacAvoy), COWPS (Moskow) and the Office of Consumer Affairs (Knauer) all recommend veto. I concur.

A proposed veto statement, cleared by Bob Orben, is at Tab B.

Decision

_____ Sign S. J. Res. 121 (Tab C)

_____ Veto S. J. Res. 121 (Tab B)

Signed
1/30/76

THE WHITE HOUSE
WASHINGTON

ACTION

January 30, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CAVANAUGH

SUBJECT: Veto of Milk Price Support Bill

As you requested last evening, we have checked the attached veto statement with Secretary Butz, and he has personally approved it.

In addition, the Farm Bureau plans to send letters on Monday to all members of the House and Senate advocating a vote to sustain your veto on this legislation.

Agriculture is working with friendly members of Congress who will voice support for your decision on the floor.

Attachment





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 26 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. J. Res. 121 - Milk Price
Support
Sponsor - Sen. Humphrey (D) Minnesota and
8 others

Last Day for Action

January 30, 1976 - Friday

Purpose

Establishes the support price for milk at 85 percent of parity with quarterly adjustments through March 31, 1978.

Agency Recommendations

Office of Management and Budget	Disapproval
Department of Agriculture	Disapproval (Veto Message attached)
Council of Economic Advisers	Disapproval
Council on Wage and Price Stability	Disapproval
Office of Consumer Affairs	Disapproval

Discussion

Under present law, the support price for milk is set administratively at from 75 to 90 percent of the parity price by the Secretary of Agriculture -- adjustments within this range can be made at anytime during the year. The parity price is that price for a given amount of a farm commodity which will pay for as much in production items, interest, taxes, etc., as the same amount of this commodity paid for in the period from 1910 to 1914. In this regard, Agriculture is presently supporting milk at \$7.71 per cwt., 80 percent of the October 1, 1975 parity price.

S. J. Res. 121 would mandate two changes to the present milk price support law. First, effective upon enactment and through March 31, 1978, the support price for milk would be at 85 percent of the parity price. Second, this support price level would be adjusted quarterly to reflect changes in the index of prices paid by farmers for production items, interest, taxes, and wage rates.

This is the third time in the last fourteen months that Congress has forced the issue of higher support prices for milk. S. 4206, passed in late December of 1974, provided for supporting milk at 85 percent of parity -- you vetoed it. Then, in April 1975, Congress enacted H.R. 4296, a farm commodity price support bill which included provisions for supporting milk at 80 percent of parity and for making quarterly adjustments in the milk support price -- you also vetoed that measure.

Meanwhile, acting within the existing statutory range noted above, the Administration announced increases in milk price supports on January 3, 1975 (increased from \$6.57 to \$7.24 per cwt. -- 80 percent of parity), and again on October 2, 1975 (increased from \$7.24 to \$7.71 per cwt. -- 80 percent of parity). Moreover, the Secretary of Agriculture has stated that he will review the dairy situation semiannually and make whatever changes in the support price that he thinks are warranted.

In advising Congress concerning the Administration's position on S. J. Res. 121, Agriculture, OMB and the Office of Consumer Affairs all strongly opposed enactment -- Agriculture and OMB both clearly stated that they would recommend a Presidential veto of the joint resolution. It should be noted that both features of the bill -- the 85 percent parity level and the requirement for quarterly adjustments -- were opposed. The agencies' arguments against enactment noted that among other things, S. J. Res. 121 would:

- * be inflationary and hurt low income families particularly hard (beginning April 1, the following minimum retail price increases could be expected: 3¢/½ gallon milk; 6.5¢/lb. cheese; 7.25¢/lb. butter; and 4¢/lb. dry milk -- consumers' retail dairy product costs over the next two years would increase by \$1,380 million);

- * provide for excessive additional dairy program cost increases of \$180M in 1976-1977 on top of \$324 million already in the budget and further raise the Federal deficit (since the dry milk is purchased at 62.4 cents per pound as compared to world market of 21 cents per pound, the government incurs substantial losses in disposing of the inventory);
- * disrupt national marketing patterns, create milk surpluses and accelerate the trend toward lower per capita milk consumption; and,
- * substantially increase the already large and growing Federal dry milk inventory which is estimated to be at 640 million pounds by September 30, 1976. This will create pressure to expand P.L. 480 donations since the only alternatives to such shipments are to sell the milk for animal feed or institute a costly inventory rotation system to prevent spoilage.

In its report on S. J. Res. 121, the House Agriculture Committee attempted to refute the Administration's arguments against the bill by stating that dairy farmers were facing persistent inflationary pressures which were not being adequately reflected in the price support level for milk. In light of this, the Committee concluded that:

"Passage of S. J. Res. 121 would assure dairy farmers that the milk price support level would reflect costs on a more current basis. And to the extent that milk prices rose above the support level in response to demand, dairy farmers would not be faced with such extreme price shocks when market prices receded to the support level as a result of seasonal increases in milk production or for any other reason. This should be helpful in maintaining milk production to meet the needs of consumers for future periods of time, a stated goal of the price support statute."

The bill passed by 307-111 in the House and by a voice vote in the Senate.

In their views letters on the enrolled bill, Agriculture, CEA, CWPS, and OCA all recommend your disapproval of S.J. Res. 121. Specifically, Agriculture notes that:

"This bill, if enacted, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years, without regard to changing economic conditions or agricultural policies.

"The high level of support required would result in unnecessarily high consumer prices and program costs, and be totally inconsistent with the Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased purchases of dairy products under the milk support program and in the build up of large, costly and farm-price depressing government surpluses.

"Estimated government outlays under this bill would increase \$180 million during the 1976-77 marketing year and \$350 million during the 1977-78 marketing year."

* * * * *

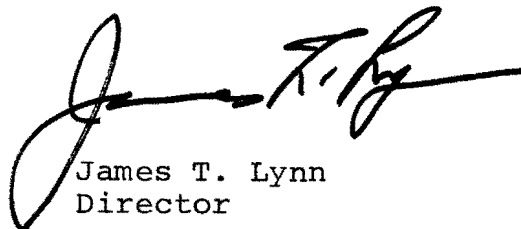
We concur with Agriculture's analysis and with the veto recommendation of the several agencies. S.J. Res. 121 would lead to further and highly visible inflation in the food sector and would involve significant increases in the budget as discussed above. A veto would also be consistent with your previous vetoes of the two related measures containing provisions to increase milk price supports (discussed above).

If you want to do something positive while still vetoing this legislation, three options are available. In each case, you could in conjunction with the veto or later in the year take the following actions:

1. Express a willingness to accept semiannual readjustments (April and October);
2. Promise to raise prices administratively this April; or,
3. Promise to raise prices administratively this October.

However, as recent history seems to indicate, we believe that such administrative actions can only produce further Congressional attempts to increase milk price support levels while simultaneously diminishing the Department's flexibility to administer the program. Moreover, all of the options would conflict with the position taken repeatedly by the Administration that frequent (less than annual) support price adjustments are generally bad because of the market disruptions they create. These measures would also create higher budget costs for the milk program and could serve as an undesirable precedent for price support increases for other farm commodity groups. Accordingly, we do not recommend any of the options discussed above.

A draft Veto Message prepared by Agriculture is attached for your consideration.



James T. Lynn
Director

Enclosures

January 30, 1976

Received from the White House a sealed envelope said to contain S.J. Res. 121, Joint Resolution to provide for quarterly adjustments in the support price for milk, and for other purposes, and a veto message thereon.

Francis R. Vales

By
Secretary of the Senate

Donald A. Davis

825 Assistant Secretary

Time received *p.m.*

TO THE SENATE OF THE UNITED STATES:

I am withholding my approval from S.J. Res. 121, which would increase the Federal support price for milk and require mandatory quarterly adjustments, for the following reasons:

1. It would saddle taxpayers with additional spending at a time when we are trying to cut the cost of government and curb inflation.
2. It would stimulate excessive production of milk, discourage consumption, force the Federal government to increase purchases of dairy products under the milk support program and build up huge and costly surpluses.
3. It would result in unnecessarily high consumer prices.

Under this bill, government outlays would be increased by \$530 million, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, consumers would be required to pay an estimated \$1.38 billion more at retail for dairy products over the next two years.

If S.J. Res. 121 became law, the support level for milk would be set at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978. This would result in substantial increases in the support level over the next two marketing years without taking into account either changing economic conditions or agricultural policies.

In disapproving similar legislation last January, I said: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation

Delivered to Secretary of Senate: 1/30/76 (8:25pm)

(stencilled)

*Teal
DMM*

would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market." This is still the case.

As far as this Administration is concerned, future changes in the price support level will be based, as in the past, on a thorough review of the entire dairy situation. Major economic factors, including the level of milk production, recent and expected farm prices for milk, the farm cost of producing milk, consumer prices and government price support purchases and budget outlays, will be considered. Elimination of this thorough review by mandating an inflexible support price would be inadvisable.

As you know, present legislation provides the Secretary of Agriculture with sufficient flexibility to increase the level of milk price supports between 75 and 90 percent of parity whenever the conditions indicate that an increase is necessary and advisable. The two increases announced by the Secretary of Agriculture last year -- one in January and another in October -- should make it clear that this Administration intends to provide the price assurance dairy farmers need.

In this regard, to ensure adequate milk price support levels, I have directed the Secretary of Agriculture to review support prices quarterly, starting April 1. If it appears necessary and advisable to make price support adjustments to ensure the supply of milk, the Secretary of Agriculture will do so.

In vetoing S.J. Res. 121, I urge the Congress to join me in this effort to hold down Federal spending, milk surpluses and consumer prices.



THE WHITE HOUSE,
January 30, 1976

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

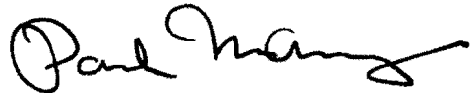
December 23, 1975

Dear Mr. Frey:

This is in response to your request for CEA's views on Senate Joint Resolution 121, to provide quarterly adjustments in the support price for milk.

CEA recommends that the bill be vetoed. It could lead to substantially higher prices for dairy products in the spring and tend to generate burdensome and costly surpluses in the form of CCC stocks. The end result would be further restrictions in dairy imports to maintain the higher support levels. The dairy industry is not under any financial stress that might provide justification for these costs.

Sincerely,



Paul MacAvoy
Member

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



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

December 22, 1975

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

Attn: Ms. Martha Ramsey
Room 7201 NEOB

Subject: Senate Joint Resolution 121

Dear Mr. Frey:

This constitutes our comments on Senate Joint Resolution 121, providing for quarterly adjustments in the support price of milk.


S.J. Res. 121 provides for quarterly adjustments in the support price for milk to be established at 85 percent of parity. While milk prices are high right now, they are expected to fall in the Spring and will probably reach support levels.

The higher support level could impose substantial costs on consumers. Raising the support price raises the entire structure of milk prices and has the effect of decreasing consumption of milk and milk products. As an example, estimates for 1973 suggest that supporting milk at 85 percent of parity would have raised the price of one hundred pounds of milk by 50 cents. This implies a social cost (a pure waste of resources) of \$65 million per year and transfers from consumers of milk products to producers of over \$500 million per year. (The estimate of social cost allows for the fact that Commodity Credit Corporation purchases are returned to society through a variety of programs.) Thus, the cost to dairy consumers is well over half a billion dollars annually.

While these figures may not be directly applicable to other years, they provide an idea of the cost of raising support prices. And, in fact, USDA estimates that the cost of this legislation would be about \$500 million for 1976-77 and \$880 million for 1977-78.

Since the cost of raising the support price may be high, and since there are no obvious social benefits, we recommend that this bill be vetoed.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael H. Moskow". The signature is fluid and cursive, with the first name being the most prominent.

Michael H. Moskow
Director

THE WHITE HOUSE

WASHINGTON

December 19, 1975

MEMORANDUM

TO: James Frey
Assistant Director for Legislative Reference
Office of Management and Budget

FROM: Virginia H. Knauer *Virginia Knauer*
Special Assistant to the President
for Consumer Affairs

For the reasons set forth in my attached letter to Congressman Findley dated December 11, 1975, I strongly recommend that the S. J. Resolution 121 be vetoed by the President.

Attachment



DEC 23 1975

RECEIVED

December 11, 1975



Dear Mr. Findley:

I am delighted to have the opportunity to express my views and the views of the Office of Consumer Affairs on Joint Resolution 121, which would set a fixed 85 percent parity for the support price of milk through March 31, 1978, and move to the required quarterly adjustment basis for prices under the new parity.

An increase in the parity price from the present 80% to 85% together with a quarterly adjustment escalator has the potential for significantly raising the price of milk and dairy products to the consumer.

According to U. S. Department of Agriculture dairy forecasts, such a rise could cost consumers, either in their role as buyer or taxpayer, hundreds of millions of dollars over the next few years. We have seen no data which would reveal benefits commensurate with these substantial costs.


A fixed parity ratio has the potential for serious misallocation of resources since it fails to allow for the operation of normal free market cost and demand forces in setting prices. Moreover, at a time when inflation remains a serious and persistent problem, quarterly adjustment periods for determination of support prices would almost certainly aggravate the inflationary potential of this basic commodity category, and could set a dangerous precedent for acceleration of the adjustment period for other economic escalators as well.

We are especially concerned with the potential impact that this kind of legislation would have on the millions of low income consumers for whom milk is a basic necessity. Low income

families now spend approximately 15% of their basic food budget on milk and dairy related products, and this proposal could seriously aggravate the hardships that many of them already face.

For the above cited reasons we are strongly opposed to Resolution 121.

Sincerely,


Virginia H. Knauer
Special Assistant to the President
for Consumer Affairs

Honorable Paul Findley III
U. S. House of Representatives
Washington, D. C. 20515

PK/nj





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

December 22, 1975

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

Dear Mr. Lynn:

In reply to the request of your office, the following report is submitted on the enrolled enactment S.J.Res. 121, "To provide for quarterly adjustments in the support price for milk, and for other purposes."

This Department recommends that the President disapprove the bill.

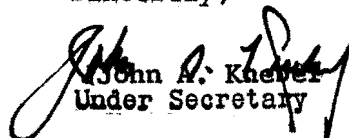
This bill, if enacted, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years, without regard to changing economic conditions or agricultural policies.

The high level of support required would result in unnecessarily high consumer prices and program costs, and be totally inconsistent with the Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased purchases of dairy products under the milk support program and in the build up of large, costly and farm-price depressing government surpluses.

Estimated government outlays under this bill would increase \$180 million during the 1976-77 marketing year and \$350 million during the 1977-78 marketing year.

A veto message is enclosed.

Sincerely,


John A. Knepper
Under Secretary

Enclosure

PROPOSED VETO MESSAGE



I am withholding my approval from S.J. Res. 121, "to provide for quarterly adjustments in the support price for milk and for other purposes," a resolution that would set the support level for milk at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978.

This resolution, if enacted, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years without regard to changing economic conditions or agricultural policies.

Present legislation already provides the flexibility for the Secretary of Agriculture to increase the level of support at any time during a marketing year and to any level between 75 and 90 percent of parity whenever conditions indicate that an increase is necessary and advisable. The two increases in the level of support for milk announced by the Secretary of Agriculture during 1975, in January and again as recently as October 2, clearly indicate this Administration's intentions are to provide the price assurance dairy farmers need to remain in business when this assurance is most needed.

The high level of support required by this resolution, however, would result in unnecessarily high consumer prices and budget outlays, and would be inconsistent with this Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased government purchases of dairy products under the milk support program as well as very large and costly government inventories.

Already overburdened taxpayers would be saddled with increased government outlays of \$535 million under this bill, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, it is estimated that consumers would be required to pay \$1,380 million more at retail for dairy products over the next two years if this bill became law.

As far as this Administration is concerned, any future changes in the price support level should be based, as in the past, as a consequence of a thorough review of the entire dairy situation, including the level of milk production, recent and expected farm prices for milk, prices to consumers, and government price support purchases and budget outlays. To remove the consideration of major economic factors from the determination of the support level by setting the support price in an arbitrary fashion would be obviously inadvisable.



OFFICE OF MANAGEMENT AND BUDGET
ASSOCIATE DIRECTOR
FOR NATURAL RESOURCES, ENERGY AND SCIENCE

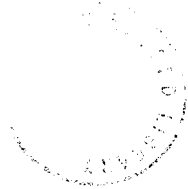
February 28, 1976

TO : Jim Connor

FROM: James L. Mitchell

Attached are copies of memoranda prepared for Jim Lynn in connection with the Milk Bill. You will note that Congressman Steiger's submission to the President is analyzed in some detail. You may want to keep this material in a White House file on the Milk Bill Veto.

Attachments



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

January 30, 1976

MEMORANDUM FOR JAMES T. LYNN

FROM: JAMES L. MITCHELL

SUBJECT: Congressman Steiger's Memorandum in Support
of the Milk Bill

Congressman Steiger argues that enactment of this legislation will

- o prevent dramatic increases in consumer prices, and
- o avoid violent swings in milk prices to dairy farmers.

Background

Oversimplifying, dairy marketing is best understood as two parts

- o sales of fluid milk which is resold as fluid to consumers -- 45 to 50% of all milk produced
- o manufacturing milk -- about 50 to 55% of the market -- which is transformed into many products, the major ones being
 - o butter
 - o cheese, and
 - o powdered, non-fat dry milk.

The way that the price to the consumer is set for all of these products is based upon -- as the following steps describe -- the support price for manufactured milk:

- o Working from the support price -- presently \$7.71 per cwt -- USDA calculates what prices of the storable products -- butter, cheese, non-fat dry milk -- would have to be in order for manufacturers to pay farmers \$7.71 -- and agrees to buy surpluses in those commodities at those prices.

- o Under the current market, free market prices for two of the manufactured items -- butter and cheese -- are high enough so that USDA, except on a seasonal basis, is not buying any of these products; USDA, however, had on hand at the end of FY 75 403 million pounds of non-fat dry milk -- which is estimated to climb to 585 million pounds at the end of this fiscal year.
- o Fluid milk -- which is not transformed into other products, but sold to consumers -- is priced through marketing orders which are analogous to regional cartels between producers and dairies under the aegis of USDA; the prices in those marketing agreements follow closely -- and use as a base -- the support price for manufactured milk set by USDA.
- o Accordingly, all milk prices -- manufactured and fluid -- to the consumer depend upon the support price for manufactured milk.

Analysis

Steiger's claims -- and our responses -- follow.

1. Steiger claims that past projections by USDA on consumption and production have over-estimated production and under-estimated consumption; specifically, CCC's projections for the 75-76 marketing year of \$340 million has now been revised to \$277 million; Steiger predicts lower production and higher consumption for the following reasons:
 - o productive capability of the Nation's dairy farmers has fallen
 - o consumption levels have remained strong in the last year
 - o commercial inventory of "butter, cheese and powdered milk is completely depleted."

Response: The following chart indicates that while the number of dairy farmers has fallen (as well as the number of cows), production has been rising slowly over the last three years because the remaining cows produce more; similarly, Steiger's claim that consumption is strong

ought to be modified to say that it varies -- considering the significant fall off in demand in the 74-75 marketing year and the current slacking in demand, finally, while we have no Federal inventory of butter and cheese -- we would hardly call the 400-600 million pounds of powdered dry milk a depleted inventory since only 800-900 million pounds are consumed annually.

<u>Marketing Year</u>	<u>Production (billion lbs.)</u>	<u>Consumption (billion lbs.)</u>	<u>Surplus* (billion lbs.)</u>
1973-4	114.8	113.2	.7
1974-5	115.5	112.2	2.4
1975-6	115.6	113.3	1.4

* After feeding calves and other farm use.

2. Steiger claims that low support prices have resulted in precipitous price declines to dairy farmers, lowering production and forcing consumer prices up -- specifically, that over 15,000 dairy farmers have gone out of business over the last two years.

Response: It is true that in the latter half of calendar year 1974 supplies fell and prices rose; the problem with Steiger's argument is that this is a fact of nature -- production normally falls in the fall and winter months as pasturage is not available -- and rises significantly in the spring when pasturage is lush. Besides, the number of dairy farms have been declining for years for reasons not likely to be overcome by 6% increases in manufacturing milk prices, e.g., lack of financial resources to expand and improve heads and to upgrade equipment to meet sanitation standards, better opportunities in and out of agriculture that are not so confining, and increasing variability of feed costs.

Steiger is suggesting the following logic

- ° higher support prices will lead to
 - a very large surplus, and that will mean
 - stable prices at the support levels.

In contrast, the Administration's policy has been to let the market determine prices to the maximum extent feasible -- including reflections of small rises and falls in supply that nature provides in the temperate zone.

The basic question here is whether we want high stable prices with large government stocks accumulating or whether we want the market to determine production and consumption levels.

3. Steiger provides a chart showing his estimated production and consumption for the next two marketing years, assuming 85% of parity and quarterly adjustments; USDA's figures have been inserted next to Steiger's.

<u>Marketing Year</u>	<u>Production (billion lbs.)</u>		<u>Consumption (billion lbs.)</u>		<u>Surplus (billion lbs.)</u>
	<u>Steiger</u>	<u>USDA</u>	<u>Steiger</u>	<u>USDA</u>	<u>USDA</u>
1976-77	116.2	117.5	115.2	111.8	3.9
1977-78	116.5	119.1	115.5	111.9	6.1

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 30, 1976

MEMORANDUM FOR JAMES T. LYNN

FROM: JAMES L. MITCHELL

SUBJECT: Milk Bill

I have received the attached draft veto message on the milk bill from Secretary Butz; I am recommending insertion of circled language used last January. More specifically, Secretary Butz wants quarterly "review" by USDA.

Background

Current law allows the President to set the parity price for milk supports at between 75% and 90% of parity. Currently, the support price is almost 80% of parity.

The law also requires that the support prices be set at least 75% of parity at the beginning of each marketing year -- April 1; up until 1975, the change had been made once a year on April 1.

In order to sustain a veto of a similar milk bill last January, the President raised the support price to 80% of parity in January.

Again in May of last year the President was forced to veto a farm bill which contained a milk support price provision. This time Secretary Butz promised to review dairy support prices semi-annually in a letter to Congressman Wampler (see attached letter).

After the January increase last year, there was no increase in April, but we did increase to 80% of parity last October 1. At that time, Secretary Butz favored an October 1, 1975, increase and an October 1, 1976, increase -- foregoing any increase in April of this year.

Analysis

In view of Secretary Butz's commitment of last May to review an increase semi-annually, it might be appropriate -- in connection with attempting to sustain a veto of the current bill -- to promise to increase to 80% of parity, or at least review, this April and this October -- or quarterly.

The following table indicates the outlays on various options.

	Marketing Year 4/1/76 - 3/31/77 <u>Outlays - \$m</u>	Marketing Year 4/1/77-3/31/78 <u>Outlays - \$M</u>
Current Program		
- no change	280	340
Semi-annual or quarterly adjustments*		
- to 80%	350	530
Proposed legislation		
- to 85% quarterly	460	690

* According to USDA, the difference in cost between semi-annual and quarterly adjustments is not very significant at projected rates of change in parity prices.

A boost to 85% parity combined with mandatory quarterly adjustments will cost the Federal Government roughly 1/3 more in outlays than 80% of parity with semi-annual or quarterly adjustments over the life of the program.

We do not purchase fluid milk. Our authority runs to the purchase of milk products

- . non-fat dry milk
- . butter
- . cheese

At present, only non-fat dry milk is being purchased at about 62¢ a pound. Our inventory has grown from 403 million pounds at the end of fiscal 1975 to about 585 million pounds estimated at the end of FY 1976. We are currently disposing of this product by giving it away through

- . school lunch programs
- . P.L. 480, or

selling it for animal feed at 30¢ to 35¢ a pound as it goes out of condition.

Attachment

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: January 26

Time: 130pm

FOR ACTION: Robert Hartmann
Max Friedersdorf *veto*
Paul Leach
Ken Lazarus *veto*
Bill Seidman *veto*

cc (for information): Jack Marsh
Jim Cavanaugh

FROM THE STAFF SECRETARY

DUE: Date: **January 27**

Time: **300pm**

SUBJECT:

S.J. Res. - 121 - Milk Price Support

ACTION REQUESTED:

- | | |
|---|---|
| <input type="checkbox"/> For Necessary Action | <input type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief | <input type="checkbox"/> Draft Reply |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks |

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE WHITE HOUSE
WASHINGTON

January 27, 1976

MEMORANDUM FOR: JIM CAVANAUGH
FROM: MAX L. FRIEDERSDORF *m.l.f.*
SUBJECT: S.J. Res. 121 - Milk Price Support

The Office of Legislative Affairs concurs with the agencies that the subject bill be vetoed. Recommend that message show more sympathy for the dairy farmer and understanding of his problems.

Attachments

Date: January 26

Time: 130pm

FOR ACTION: Robert Hartmann
Max Friedersdorf
Paul Leach
Ken Lazarus ✓
Bill Seidman

cc (for information): Jack Marsh
Jim Cavanaugh

FROM THE STAFF SECRETARY

DUE: Date: January 27Time: 300pm

SUBJECT:

S.J. Res. - 121 - Milk Price Support

ACTION REQUESTED:

 For Necessary Action For Your Recommendations Prepare Agenda and Brief Draft Reply For Your Comments Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

Recommend veto. Ken Lazarus

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

President

Date: January 26

Time: 130pm

FOR ACTION: Robert Hartmann
Max Friedersdorf
Paul Leach
Ken Lazarus
Bill Seidman ✓

cc (for information): Jack Marsh
Jim Cavanaugh

FROM THE STAFF SECRETARY

DUE: Date:

Time:

SUBJECT:

S.J. Res. - 121 - Milk Price Support



ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

*Veto
JWS*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

President

1/26/76
11:40 a.m.
1/27/76
10:27
GA(BA)

Date: January 26

Time: 130pm

FOR ACTION: Robert Hartmann ✓
Max Friedersdorf
Paul Leach
Ken Lazarus
Bill Seidman

cc (for information): Jack Marsh
Jim Cavanaugh

tru to east
1-27
11:25
GA/ms

FROM THE STAFF SECRETARY

DUE: Date: January 27

Time: 300pm

SUBJECT:

S.J. Res. - 121 - Milk Price Support

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

RETURN TO RESEARCH ROOM 1-2

[Handwritten signatures and initials]
twox

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

President



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 26 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. J. Res. 121 - Milk Price
Support
Sponsor - Sen. Humphrey (D) Minnesota and
8 others

Last Day for Action

January 30, 1976 - Friday

Purpose

Establishes the support price for milk at 85 percent of parity with quarterly adjustments through March 31, 1978.

Agency Recommendations

Office of Management and Budget	Disapproval
Department of Agriculture	Disapproval (Veto Message attached)
Council of Economic Advisers	Disapproval
Council on Wage and Price Stability	Disapproval
Office of Consumer Affairs	Disapproval

Discussion

Under present law, the support price for milk is set administratively at from 75 to 90 percent of the parity price by the Secretary of Agriculture -- adjustments within this range can be made at anytime during the year. The parity price is that price for a given amount of a farm commodity which will pay for as much in production items, interest, taxes, etc., as the same amount of this commodity paid for in the period from 1910 to 1914. In this regard, Agriculture is presently supporting milk at \$7.71 per cwt., 80 percent of the October 1, 1975 parity price.

S. J. Res. 121 would mandate two changes to the present milk price support law. First, effective upon enactment and through March 31, 1978, the support price for milk would be at 85 percent of the parity price. Second, this support price level would be adjusted quarterly to reflect changes in the index of prices paid by farmers for production items, interest, taxes, and wage rates.

This is the third time in the last fourteen months that Congress has forced the issue of higher support prices for milk. S. 4206, passed in late December of 1974, provided for supporting milk at 85 percent of parity -- you vetoed it. Then, in April 1975, Congress enacted H.R. 4296, a farm commodity price support bill which included provisions for supporting milk at 80 percent of parity and for making quarterly adjustments in the milk support price -- you also vetoed that measure.

Meanwhile, acting within the existing statutory range noted above, the Administration announced increases in milk price supports on January 3, 1975 (increased from \$6.57 to \$7.24 per cwt. -- 80 percent of parity), and again on October 2, 1975 (increased from \$7.24 to \$7.71 per cwt. -- 80 percent of parity). Moreover, the Secretary of Agriculture has stated that he will review the dairy situation semiannually and make whatever changes in the support price that he thinks are warranted.

In advising Congress concerning the Administration's position on S. J. Res. 121, Agriculture, OMB and the Office of Consumer Affairs all strongly opposed enactment -- Agriculture and OMB both clearly stated that they would recommend a Presidential veto of the joint resolution. It should be noted that both features of the bill -- the 85 percent parity level and the requirement for quarterly adjustments -- were opposed. The agencies' arguments against enactment noted that among other things, S. J. Res. 121 would:

- * be inflationary and hurt low income families particularly hard (beginning April 1, the following minimum retail price increases could be expected: 3¢/½ gallon milk; 6.5¢/lb. cheese; 7.25¢/lb. butter; and 4¢/lb. dry milk -- consumers' retail dairy product costs over the next two years would increase by \$1,380 million);

- * provide for excessive additional dairy program cost increases of \$180M in 1976-1977 on top of \$324 million already in the budget and further raise the Federal deficit (since the dry milk is purchased at 62.4 cents per pound as compared to world market of 21 cents per pound, the government incurs substantial losses in disposing of the inventory);
- * disrupt national marketing patterns, create milk surpluses and accelerate the trend toward lower per capita milk consumption; and,
- * substantially increase the already large and growing Federal dry milk inventory which is estimated to be at 640 million pounds by September 30, 1976. This will create pressure to expand P.L. 480 donations since the only alternatives to such shipments are to sell the milk for animal feed or institute a costly inventory rotation system to prevent spoilage.

In its report on S. J. Res. 121, the House Agriculture Committee attempted to refute the Administration's arguments against the bill by stating that dairy farmers were facing persistent inflationary pressures which were not being adequately reflected in the price support level for milk. In light of this, the Committee concluded that:

"Passage of S. J. Res. 121 would assure dairy farmers that the milk price support level would reflect costs on a more current basis. And to the extent that milk prices rose above the support level in response to demand, dairy farmers would not be faced with such extreme price shocks when market prices receded to the support level as a result of seasonal increases in milk production or for any other reason. This should be helpful in maintaining milk production to meet the needs of consumers for future periods of time, a stated goal of the price support statute."

The bill passed by 307-111 in the House and by a voice vote in the Senate.

In their views letters on the enrolled bill, Agriculture, CEA, CWPS, and OCA all recommend your disapproval of S.J. Res. 121. Specifically, Agriculture notes that:

"This bill, if enacted, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years, without regard to changing economic conditions or agricultural policies.

"The high level of support required would result in unnecessarily high consumer prices and program costs, and be totally inconsistent with the Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased purchases of dairy products under the milk support program and in the build up of large, costly and farm-price depressing government surpluses.

"Estimated government outlays under this bill would increase \$180 million during the 1976-77 marketing year and \$350 million during the 1977-78 marketing year."

* * * * *

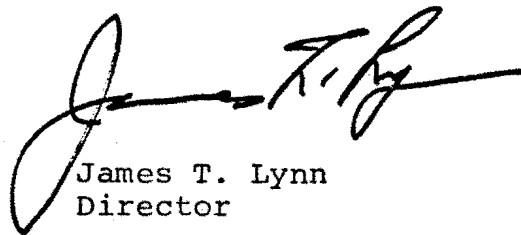
We concur with Agriculture's analysis and with the veto recommendation of the several agencies. S.J. Res. 121 would lead to further and highly visible inflation in the food sector and would involve significant increases in the budget as discussed above. A veto would also be consistent with your previous vetoes of the two related measures containing provisions to increase milk price supports (discussed above).

If you want to do something positive while still vetoing this legislation, three options are available. In each case, you could in conjunction with the veto or later in the year take the following actions:

1. Express a willingness to accept semiannual readjustments (April and October);
2. Promise to raise prices administratively this April; or,
3. Promise to raise prices administratively this October.

However, as recent history seems to indicate, we believe that such administrative actions can only produce further Congressional attempts to increase milk price support levels while simultaneously diminishing the Department's flexibility to administer the program. Moreover, all of the options would conflict with the position taken repeatedly by the Administration that frequent (less than annual) support price adjustments are generally bad because of the market disruptions they create. These measures would also create higher budget costs for the milk program and could serve as an undesirable precedent for price support increases for other farm commodity groups. Accordingly, we do not recommend any of the options discussed above.

A draft Veto Message prepared by Agriculture is attached for your consideration.



James T. Lynn
Director

Enclosures

*try
OK*

TO THE SENATE:

*OMB
memo*

I am withholding my approval from S. J. Res. 121, an Act "To provide for quarterly adjustments in the support price for milk and for other purposes."

*OMB
memo*

S. J. Res. 121 would set the support level for milk at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978.

*OMB
memo*

This resolution, if approved, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years without regard to changing economic conditions or agricultural policies.

*OMB
memo*

Present legislation already provides the flexibility for the Secretary of Agriculture to increase the level of support at anytime during a marketing year and to any level between 75 and 90 percent of parity whenever conditions indicate that an increase is necessary and advisable. The two increases in the level of support for milk announced by the Secretary of Agriculture during 1975, in January and again as recently as October 2, clearly indicate this Administration's intentions are to provide the price assurance dairy farmers need. However, as I stated last January in disapproving similar legislation: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market."

*OMB
memo*

1/3/75

The high level of support required by this resolution, however, would result in unnecessarily high



consumer prices and budget outlays, and would be inconsistent with this Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased government purchases of dairy products under the milk support program as well as very large and costly government inventories.

OMB memo

X
X
X

Already overburdened taxpayers would be saddled with increased government outlays of \$530 million under this bill, including \$180 million during the 1976-77 marketing year and \$350-million during the subsequent 1977-78 marketing year. In addition, it is estimated that consumers would be required to pay \$1,380 million -- or about 3 cents per half gallon for milk -- more at retail for dairy products over the next two years if this bill became law.

OMB memo

OMB memo

As far as this Administration is concerned, any future changes in the price support level should be based, as in the past, as a consequence of a thorough review of the entire dairy situation, including the level of milk production, recent and expected farm prices for milk, prices to consumers, and government price support purchases and budget outlays. To remove the consideration of major economic factors from the determination of the support level by setting the support price in an arbitrary fashion would be obviously inadvisable.

OMB memo

X

THE WHITE HOUSE

January , 1976



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

December 22, 1975

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

Dear Mr. Lynn:

In reply to the request of your office, the following report is submitted on the enrolled enactment S.J.Res. 121, "To provide for quarterly adjustments in the support price for milk, and for other purposes."

This Department recommends that the President disapprove the bill.

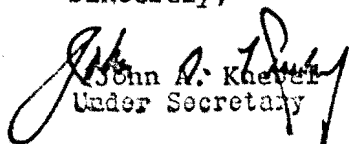
This bill, if enacted, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years, without regard to changing economic conditions or agricultural policies.

The high level of support required would result in unnecessarily high consumer prices and program costs, and be totally inconsistent with the Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased purchases of dairy products under the milk support program and in the build up of large, costly and farm-price depressing government surpluses.

Estimated government outlays under this bill would increase \$180 million during the 1976-77 marketing year and \$350 million during the 1977-78 marketing year.

A veto message is enclosed.

Sincerely,


John A. Knepper
Under Secretary

Enclosure

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

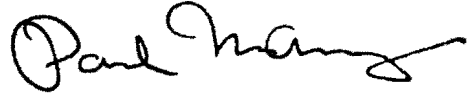
December 23, 1975

Dear Mr. Frey:

This is in response to your request for CEA's views on Senate Joint Resolution 121, to provide quarterly adjustments in the support price for milk.

CEA recommends that the bill be vetoed. It could lead to substantially higher prices for dairy products in the spring and tend to generate burdensome and costly surpluses in the form of CCC stocks. The end result would be further restrictions in dairy imports to maintain the higher support levels. The dairy industry is not under any financial stress that might provide justification for these costs.

Sincerely,



Paul MacAvoy
Member

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



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

December 22, 1975

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

Attn: Ms. Martha Ramsey
Room 7201 NEOB

Subject: Senate Joint Resolution 121

Dear Mr. Frey:

This constitutes our comments on Senate Joint Resolution 121, providing for quarterly adjustments in the support price of milk.

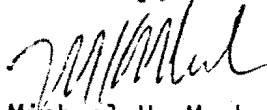
S.J. Res. 121 provides for quarterly adjustments in the support price for milk to be established at 85 percent of parity. While milk prices are high right now, they are expected to fall in the Spring and will probably reach support levels.

The higher support level could impose substantial costs on consumers. Raising the support price raises the entire structure of milk prices and has the effect of decreasing consumption of milk and milk products. As an example, estimates for 1973 suggest that supporting milk at 85 percent of parity would have raised the price of one hundred pounds of milk by 50 cents. This implies a social cost (a pure waste of resources) of \$65 million per year and transfers from consumers of milk products to producers of over \$500 million per year. (The estimate of social cost allows for the fact that Commodity Credit Corporation purchases are returned to society through a variety of programs.) Thus, the cost to dairy consumers is well over half a billion dollars annually.

While these figures may not be directly applicable to other years, they provide an idea of the cost of raising support prices. And, in fact, USDA estimates that the cost of this legislation would be about \$500 million for 1976-77 and \$880 million for 1977-78.

Since the cost of raising the support price may be high, and since there are no obvious social benefits, we recommend that this bill be vetoed.

Sincerely,

A handwritten signature in dark ink, appearing to read "M. Moskow", written in a cursive style.

Michael H. Moskow
Director

1/26

To Tredy-

If no hang-up on
nets, phy. should be ready
on Wednesday, 1/28 - per
Mr. Linder.

1/26

4:35 p. m.

Mr. Lindes -

Mr. Cheney wants to know
an estimated time when completed
package on S. J. Res. 121 (Milk Bill -
proposed veto) will be on the

Pres' desk.

Back thru Tudy -

(to Dr. Connor - to Mr. Cheney,)

pls.

Kate
(Bill report to Dr. Conroy today)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 26 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill S. J. Res. 121 - Milk Price
Support
Sponsor - Sen. Humphrey (D) Minnesota and
8 others

Last Day for Action

January 30, 1976 - Friday

Purpose

Establishes the support price for milk at 85 percent of parity with quarterly adjustments through March 31, 1978.

Agency Recommendations

Office of Management and Budget	Disapproval
Department of Agriculture	Disapproval (Veto Message attached)
Council of Economic Advisers	Disapproval
Council on Wage and Price Stability	Disapproval
Office of Consumer Affairs	Disapproval

Discussion

Under present law, the support price for milk is set administratively at from 75 to 90 percent of the parity price by the Secretary of Agriculture -- adjustments within this range can be made at anytime during the year. The parity price is that price for a given amount of a farm commodity which will pay for as much in production items, interest, taxes, etc., as the same amount of this commodity paid for in the period from 1910 to 1914. In this regard, Agriculture is presently supporting milk at \$7.71 per cwt., 80 percent of the October 1, 1975 parity price.



To -
J. Casper
1-26-76
1:00 p.m.

S. J. Res. 121 would mandate two changes to the present milk price support law. First, effective upon enactment and through March 31, 1978, the support price for milk would be at 85 percent of the parity price. Second, this support price level would be adjusted quarterly to reflect changes in the index of prices paid by farmers for production items, interest, taxes, and wage rates.

This is the third time in the last fourteen months that Congress has forced the issue of higher support prices for milk. S. 4206, passed in late December of 1974, provided for supporting milk at 85 percent of parity -- you vetoed it. Then, in April 1975, Congress enacted H.R. 4296, a farm commodity price support bill which included provisions for supporting milk at 80 percent of parity and for making quarterly adjustments in the milk support price -- you also vetoed that measure.

Meanwhile, acting within the existing statutory range noted above, the Administration announced increases in milk price supports on January 3, 1975 (increased from \$6.57 to \$7.24 per cwt. -- 80 percent of parity), and again on October 2, 1975 (increased from \$7.24 to \$7.71 per cwt. -- 80 percent of parity). Moreover, the Secretary of Agriculture has stated that he will review the dairy situation semiannually and make whatever changes in the support price that he thinks are warranted.

In advising Congress concerning the Administration's position on S. J. Res. 121, Agriculture, OMB and the Office of Consumer Affairs all strongly opposed enactment -- Agriculture and OMB both clearly stated that they would recommend a Presidential veto of the joint resolution. It should be noted that both features of the bill -- the 85 percent parity level and the requirement for quarterly adjustments -- were opposed. The agencies' arguments against enactment noted that among other things, S. J. Res. 121 would:

- * be inflationary and hurt low income families particularly hard (beginning April 1, the following minimum retail price increases could be expected: 3¢/½ gallon milk; 6.5¢/lb. cheese; 7.25¢/lb. butter; and 4¢/lb. dry milk -- consumers' retail dairy product costs over the next two years would increase by \$1,380 million);

- * provide for excessive additional dairy program cost increases of \$180M in 1976-1977 on top of \$324 million already in the budget and further raise the Federal deficit (since the dry milk is purchased at 62.4 cents per pound as compared to world market of 21 cents per pound, the government incurs substantial losses in disposing of the inventory);
- * disrupt national marketing patterns, create milk surpluses and accelerate the trend toward lower per capita milk consumption; and,
- * substantially increase the already large and growing Federal dry milk inventory which is estimated to be at 640 million pounds by September 30, 1976. This will create pressure to expand P.L. 480 donations since the only alternatives to such shipments are to sell the milk for animal feed or institute a costly inventory rotation system to prevent spoilage.

In its report on S. J. Res. 121, the House Agriculture Committee attempted to refute the Administration's arguments against the bill by stating that dairy farmers were facing persistent inflationary pressures which were not being adequately reflected in the price support level for milk. In light of this, the Committee concluded that:

"Passage of S. J. Res. 121 would assure dairy farmers that the milk price support level would reflect costs on a more current basis. And to the extent that milk prices rose above the support level in response to demand, dairy farmers would not be faced with such extreme price shocks when market prices receded to the support level as a result of seasonal increases in milk production or for any other reason. This should be helpful in maintaining milk production to meet the needs of consumers for future periods of time, a stated goal of the price support statute."

The bill passed by 307-111 in the House and by a voice vote in the Senate.

In their views letters on the enrolled bill, Agriculture, CEA, CWPS, and OCA all recommend your disapproval of S.J. Res. 121. Specifically, Agriculture notes that:

"This bill, if enacted, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years, without regard to changing economic conditions or agricultural policies.

"The high level of support required would result in unnecessarily high consumer prices and program costs, and be totally inconsistent with the Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased purchases of dairy products under the milk support program and in the build up of large, costly and farm-price depressing government surpluses.

"Estimated government outlays under this bill would increase \$180 million during the 1976-77 marketing year and \$350 million during the 1977-78 marketing year."

* * * * *

We concur with Agriculture's analysis and with the veto recommendation of the several agencies. S.J. Res. 121 would lead to further and highly visible inflation in the food sector and would involve significant increases in the budget as discussed above. A veto would also be consistent with your previous vetoes of the two related measures containing provisions to increase milk price supports (discussed above).

If you want to do something positive while still vetoing this legislation, three options are available. In each case, you could in conjunction with the veto or later in the year take the following actions:

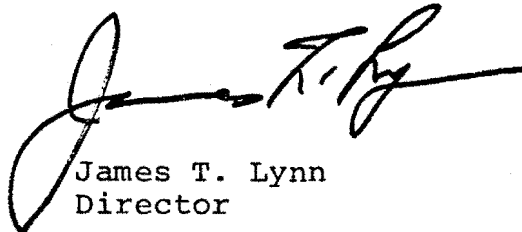
1. Express a willingness to accept semiannual readjustments (April and October);

2. Promise to raise prices administratively this April; or,

3. Promise to raise prices administratively this October.

However, as recent history seems to indicate, we believe that such administrative actions can only produce further Congressional attempts to increase milk price support levels while simultaneously diminishing the Department's flexibility to administer the program. Moreover, all of the options would conflict with the position taken repeatedly by the Administration that frequent (less than annual) support price adjustments are generally bad because of the market disruptions they create. These measures would also create higher budget costs for the milk program and could serve as an undesirable precedent for price support increases for other farm commodity groups. Accordingly, we do not recommend any of the options discussed above.

A draft Veto Message prepared by Agriculture is attached for your consideration.



James T. Lynn
Director

Enclosures

TO THE SENATE:

I am withholding my approval from S. J. Res. 121, an Act "To provide for quarterly adjustments in the support price for milk and for other purposes."

S. J. Res. 121 would set the support level for milk at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978.

This resolution, if approved, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years without regard to changing economic conditions or agricultural policies.

Present legislation already provides the flexibility for the Secretary of Agriculture to increase the level of support at anytime during a marketing year and to any level between 75 and 90 percent of parity whenever conditions indicate that an increase is necessary and advisable. The two increases in the level of support for milk announced by the Secretary of Agriculture during 1975, in January and again as recently as October 2, clearly indicate this Administration's intentions are to provide the price assurance dairy farmers need. However, as I stated last January in disapproving similar legislation: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market."

The high level of support required by this resolution, however, would result in unnecessarily high

consumer prices and budget outlays, and would be inconsistent with this Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased government purchases of dairy products under the milk support program as well as very large and costly government inventories.

Already overburdened taxpayers would be saddled with increased government outlays of \$530 million under this bill, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, it is estimated that consumers would be required to pay \$1,380 million -- or about 3 cents per half gallon for milk -- more at retail for dairy products over the next two years if this bill became law.

As far as this Administration is concerned, any future changes in the price support level should be based, as in the past, as a consequence of a thorough review of the entire dairy situation, including the level of milk production, recent and expected farm prices for milk, prices to consumers, and government price support purchases and budget outlays. To remove the consideration of major economic factors from the determination of the support level by setting the support price in an arbitrary fashion would be obviously inadvisable.

THE WHITE HOUSE

January , 1976

TO THE SENATE; *of the U-S*

I am withholding my approval from S. J. Res. 121, an Act "To provide for quarterly adjustments in the support price for milk and for other purposes", because of its anticipated inflationary impact and adverse budget consequences.

S. J. Res. 121 would set the support level for milk at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978.

This resolution, if approved, would require substantial increases in the support level for the next two marketing years without giving due regard to changing economic conditions or agricultural policies.

Present legislation already provides the Secretary of Agriculture with sufficient flexibility to increase the level of support anytime during a marketing year to any level between 75 and 90 percent of parity whenever conditions indicate that an increase is necessary and advisable. The two increases in the level of support for milk announced by the Secretary of Agriculture during 1975 --- in January, and again as recently as October 2 --- clearly indicate that this Administration intends to provide the price assurance dairy farmers need. However, as I stated last



January in disapproving similar legislation: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market."

The high level of support required by this resolution would result in unnecessarily high consumer prices and increased budget outlays, and would be inconsistent with this Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased Government purchases of dairy products under the milk support program as well as very large and costly Government inventories.

Already overburdened taxpayers would be saddled with increased Government outlays of \$530 million under this bill, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, it is estimated that consumers would be required to pay \$1.38 billion more at retail for dairy products over the next two years if this bill became law. As a specific example, this legislation would add about 3¢ per half gallon to the retail price of milk.

As far as this Administration is concerned, any future changes in the price support level should be based, as in the past, on a thorough review of the entire dairy situation. Major economic factors, including the level of milk production, recent and expected farm prices for milk, consumer prices and Government price support purchases and budget outlays, should be considered. To eliminate this thorough review by mandating an inflexible support price would be inadvisable.

TO THE SENATE OF THE UNITED STATES:

I am withholding my approval from S. J. Res. 121, an Act "To provide for quarterly adjustments in the support price for milk and for other purposes", because of its anticipated inflationary impact and adverse budget consequences.

S. J. Res. 121 would set the support level for milk at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978.

This resolution, if approved, would require substantial increases in the support level for the next two marketing years without giving due regard to changing economic conditions or agricultural policies.

Present legislation already provides the Secretary of Agriculture with sufficient flexibility to increase the level of support anytime during a marketing year to any level between 75 and 90 percent of parity whenever conditions indicate that an increase is necessary and advisable. The two increases in the level of support for milk announced by the Secretary of Agriculture during 1975 -- in January, and again as recently as October 2 -- clearly indicate that this Administration intends to provide the price assurance dairy farmers need. However, as I stated last January in disapproving similar legislation: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market."

The high level of support required by this resolution would result in unnecessarily high consumer prices and increased budget outlays, and would be inconsistent with this Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased Government purchases of dairy products under the milk support program as well as very large and costly Government inventories.

Already overburdened taxpayers would be saddled with increased Government outlays of \$530 million under this bill, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, it is estimated that consumers would be required to pay \$1.38 billion more at retail for dairy products over the next two years if this bill became law. As a specific example, this legislation would add about 3¢ per half gallon to the retail price of milk.

As far as this Administration is concerned, any future changes in the price support level should be based, as in the past, on a thorough review of the entire dairy situation. Major economic factors, including the level of milk production, recent and expected farm prices for milk, consumer prices and Government price support purchases and budget outlays, should be considered. To eliminate this thorough review by mandating an inflexible support price would be inadvisable.

THE WHITE HOUSE,

To the Senate *of the United States*:



I am withholding my approval from S.J. Res. 121, which would increase the Federal support price for milk and require mandatory quarterly adjustments, for the following reasons:

1. It would result in unnecessarily high consumer prices.
2. It would saddle taxpayers with additional spending at a time when we are trying to cut the cost of government and curb inflation.
3. It would stimulate excessive production of milk, discourage consumption, force the Federal government to increase purchases of dairy products under the milk support program and build up huge and costly surpluses.

Under this bill, government outlays would be increased by \$530 million, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, consumers would be required to pay an estimated \$1.38 billion more at retail for dairy products over the next two years.

If S.J. Res. 121 became law, the support level for milk would be set at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978. This would result in substantial increases in the support level over the next two marketing years without taking into account either changing economic conditions or agricultural policies.

As far as this Administration is concerned, future changes in the price support level will be based, as in the past, on a thorough review of the entire dairy situation. Major economic factors, including the level of milk production, recent and expected farm prices for milk, the farm cost of producing milk, consumer prices and government price support purchases and budget outlays, will be considered. Elimination of this thorough review by mandating an inflexible support price would be inadvisable.

As you know, present legislation provides the Secretary of Agriculture with sufficient flexibility to increase the level of milk price supports between 75 and 90 percent of parity whenever the conditions indicate that an increase is necessary and advisable. The two increases announced by the Secretary of Agriculture

last year--one in January and another in October--
should make it clear that this Administration intends
to provide the price assurance dairy farmers need.

In this regard, to insure that milk support levels
will meet increases in production costs, I have
directed the Secretary of Agriculture to review
support prices quarterly, starting April 1.

In vetoing S.J. Res. 121, I urge the Congress to join
me in this effort to hold down consumer prices,
Federal spending and milk surpluses.

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In this regard, to insure that milk support levels will meet increases in production costs, I have directed the Secretary of Agriculture to review support prices quarterly, starting April 1.

In vetoing S.J. Res. 121, I urge the Congress to join me in this effort to hold down consumer prices, Federal spending and milk surpluses.

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3. It would stimulate excessive production of milk, discourage consumption, force the Federal government to increase purchases of dairy products under the milk support program and build up huge and costly surpluses.

Under this bill, government outlays would be increased by \$530 million, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, consumers would be required to pay an estimated \$1.18 billion more at retail for dairy products over the next two years.

If S.J. Res. 121 became law, the support level for milk would be set at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978. This would result in substantial increases in the support level over the next two marketing years without taking into account either changing economic conditions or agricultural policies.

As far as this Administration is concerned, future changes in the price support level will be based, as in the past, on a thorough review of the entire dairy

To the Senate *of the United States:*

I am withholding my approval from S.J. Res. 121, which would increase the Federal support price for milk and require mandatory quarterly adjustments, for the following reasons:

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1. It would saddle taxpayers with additional spending at a time when we are trying to cut the cost of government and curb inflation.
2. It would stimulate excessive production of milk, discourage consumption, force the Federal government to increase purchases of dairy products under the milk support program and build up huge and costly surpluses.

Under this bill, government outlays would be increased by \$530 million, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, consumers would be required to pay an estimated \$1.38 billion more at retail for dairy products over the next two years.

If S.J. Res. 121 became law, the support level for milk would be set at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978. This would result in substantial increases in the support level over the next two marketing years without taking into account either changing economic conditions or agricultural policies.

In disapproving similar legislation last January, I said: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market."

~~I continue to believe this.~~ **THIS IS STILL THE CASE.**

As far as this Administration is concerned, future changes in the price support level will be based, as in the past, on a thorough review of the entire dairy situation. Major economic factors, including the level of milk production, recent and expected farm prices for milk, the farm cost of producing milk, consumer prices and government price support purchases

and budget outlays, will be considered. Elimination of this thorough review by mandating an inflexible support price would be inadvisable.

As you know, present legislation provides the Secretary of Agriculture with sufficient flexibility to increase the level of milk price supports between 75 and 90 percent of parity whenever the conditions indicate that an increase is necessary and advisable. The two increases announced by the Secretary of Agriculture last year--one in January and another in October--should make it clear that this Administration intends to provide the price assurance dairy farmers need.

In this regard, to ^Ensure adequate milk price support levels, I have directed the Secretary of Agriculture to review support prices quarterly, starting April 1. If it appears necessary and advisable to make price support adjustments to ^Ensure the supply of milk, the Secretary of Agriculture will do so.

In vetoing S.J. Res. 121, I urge the Congress to join me in this effort to hold down Federal spending, milk surpluses and consumer prices.

TO THE SENATE OF THE UNITED STATES:

I am withholding my approval from S.J. Res. 121, which would increase the Federal support price for milk and require mandatory quarterly adjustments, for the following reasons:

1. It would saddle taxpayers with additional spending at a time when we are trying to cut the cost of government and curb inflation.
2. It would stimulate excessive production of milk, discourage consumption, force the Federal government to increase purchases of dairy products under the milk support program and build up huge and costly surpluses.
3. It would result in unnecessarily high consumer prices.

Under this bill, government outlays would be increased by \$530 million, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, consumers would be required to pay an estimated \$1.38 billion more at retail for dairy products over the next two years.

If S.J. Res. 121 became law, the support level for milk would be set at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978. This would result in substantial increases in the support level over the next two marketing years without taking into account either changing economic conditions or agricultural policies.

In disapproving similar legislation last January, I said: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation

would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market." This is still the case.

As far as this Administration is concerned, future changes in the price support level will be based, as in the past, on a thorough review of the entire dairy situation. Major economic factors, including the level of milk production, recent and expected farm prices for milk, the farm cost of producing milk, consumer prices and government price support purchases and budget outlays, will be considered. Elimination of this thorough review by mandating an inflexible support price would be inadvisable.

As you know, present legislation provides the Secretary of Agriculture with sufficient flexibility to increase the level of milk price supports between 75 and 90 percent of parity whenever the conditions indicate that an increase is necessary and advisable. The two increases announced by the Secretary of Agriculture last year -- one in January and another in October -- should make it clear that this Administration intends to provide the price assurance dairy farmers need.

In this regard, to ensure adequate milk price support levels, I have directed the Secretary of Agriculture to review support prices quarterly, starting April 1. If it appears necessary and advisable to make price support adjustments to ensure the supply of milk, the Secretary of Agriculture will do so.

In vetoing S.J. Res. 121, I urge the Congress to join me in this effort to hold down Federal spending, milk surpluses and consumer prices.

THE WHITE HOUSE,

TO THE SENATE:

I am withholding my approval from S. J. Res. 121, an Act "To provide for quarterly adjustments in the support price for milk and for other purposes."

S. J. Res. 121 would set the support level for milk at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978.

This resolution, if approved, would require substantial increases in the support level for the 1976-77 and 1977-78 marketing years without regard to changing economic conditions or agricultural policies.

Present legislation already provides the flexibility for the Secretary of Agriculture to increase the level of support at anytime during a marketing year and to any level between 75 and 90 percent of parity whenever conditions indicate that an increase is necessary and advisable. The two increases in the level of support for milk announced by the Secretary of Agriculture during 1975, in January and again as recently as October 2, clearly indicate this Administration's intentions are to provide the price assurance dairy farmers need. However, as I stated last January in disapproving similar legislation: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market."

The high level of support required by this resolution, however, would result in unnecessarily high

consumer prices and budget outlays, and would be inconsistent with this Administration's efforts to combat inflation. It would stimulate excessive production of milk and discourage consumption, resulting in greatly increased government purchases of dairy products under the milk support program as well as very large and costly government inventories.

Already overburdened taxpayers would be saddled with increased government outlays of \$530 million under this bill, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, it is estimated that consumers would be required to pay \$1,380 million -- or about 3 cents per half gallon for milk -- more at retail for dairy products over the next two years if this bill became law.

As far as this Administration is concerned, any future changes in the price support level should be based, as in the past, as a consequence of a thorough review of the entire dairy situation, including the level of milk production, recent and expected farm prices for milk, prices to consumers, and government price support purchases and budget outlays. To remove the consideration of major economic factors from the determination of the support level by setting the support price in an arbitrary fashion would be obviously inadvisable.

THE WHITE HOUSE

January , 1976

QUARTERLY ADJUSTMENTS OF SUPPORT PRICES FOR MILK

SEPTEMBER 24 (legislative day, SEPTEMBER 11), 1975.—Ordered to be printed

Mr. HUMPHREY, from the Committee on Agriculture and Forestry, submitted the following

REPORT

[To accompany S.J. Res. 121]

The Committee on Agriculture and Forestry, to which was referred the joint resolution (S.J. Res. 121) to provide for quarterly adjustments in the support price for milk, having considered the same, reports favorably thereon with an amendment and recommends that the joint resolution as amended do pass.

SHORT EXPLANATION

This resolution would require—effective for the period beginning on the date of enactment and ending on March 31, 1979—that the Secretary of Agriculture adjust upward the support price of manufacturing milk at the beginning of each quarter to reflect any estimated increase during the immediately preceding quarter in the index of prices paid by farmers for production items, interest, taxes, and wage rates.

COMMITTEE AMENDMENTS

When introduced, the resolution contained the parenthetical clause “beginning with the third quarter of the calendar year 1975”. As a technical matter, this clause is unnecessary because the effective date of the legislation is the date of enactment and as a practical matter the third quarter will end within a few days. Therefore, the clause was stricken from the resolution.

PURPOSE

Under existing law, price supports for manufacturing milk are usually set at the beginning of the marketing year (April 1) at such

a level not in excess of 90 percent nor less than 75 percent of the parity price therefor as the Secretary determines necessary in order to assure an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs.

Under existing law, it has been the general practice of the Department of Agriculture that the price support level, in dollars and cents, announced on April 1 is not again changed until the beginning of a new marketing year even though the dollar level of support subsequently falls below the original percent of parity and even in some cases below the absolute minimum of 75 percent of parity prescribed by law.

This occurs because increases in prices paid by farmers causes the parity price for milk to increase in months subsequent to April 1. Therefore, the dollar and cents level of supports announced at the beginning of the marketing year decreases as a percent of parity over the ensuing 12 months.

Under the resolution, the level of price support established April 1 each year, however, would be adjusted July 1, October 1 and January 1 following, to reflect estimated increases in the index of prices paid by farmers for production items, including interest, taxes, and wage rates.

For example, for the current marketing year beginning April 1, 1975, the price support level for milk was established at \$7.24 per hundredweight and the index of prices paid by farmers for production items was 666 (1910-14=100). Had S.J. Res. 121 been in effect the price would have been adjusted July 1 from \$7.24 to \$7.38. This adjustment would reflect the change in the index of prices paid from 666 on April 1, to 681 on July 1, or 2 percent.

Assuming that the index of prices paid by farmers will continue to advance at the same rate (8 percent per annum) for the balance of the marketing year, the price support level for milk would be adjusted to \$7.52 October 1, and to \$7.66 on January 1, 1976.

It should be pointed out that the \$7.24 price support level on April 1 was 77.8 percent of parity. By July 1, the support price at 77.8 percent of parity would have been \$7.37, essentially the same as the \$7.38 price level which would have resulted from the proposed quarterly adjustment.

The intent of the Agriculture and Consumer Protection Act of 1973 was to assure farmers of a price support level of not less than 80 percent of parity through March 31, 1975. Had the price been established at 80 percent of parity April 1, 1975, it would have been \$7.45 rather than \$7.24; and the price as adjusted July 1 would have been \$7.60 rather than \$7.38.

S.J. Res. 121 would be effective through March 31, 1979. Its effect on milk prices to farmers and CCC purchase prices will depend solely upon changes within each marketing year of the index of prices paid by farmers for production items. This index generally will parallel the rate of inflation for the economy as a whole. It may be more or it may be less depending upon whether feed prices and other farm production items escalate more rapidly or less rapidly than commodity prices in general.

BACKGROUND

During the past few years, farmers have experienced persistent increases in the cost of milk production. They have been the victims of the inflationary trend. Although the price support level for milk has been adjusted at least annually, the changes have followed rather than kept pace with increases in costs for producing milk.

Passage of S.J. Res. 121 would assure dairy farmers that the milk price support level would reflect costs on a more current basis. And to the extent that milk prices rose above the support level in response to demand, dairy farmers would not be faced with such extreme price shocks when market prices receded to the support level as a result of seasonal increases in milk production or for any other reason. This should be helpful in maintaining milk production to meet the needs of consumers for future periods of time, a stated goal of the price support statute.

Milk production for calendar 1972 was reported as being 119.9 billion pounds. The following year, 1973, milk production dropped to 115.4 billion pounds, largely a result of the severe cost-price squeeze. During 1974 milk production was again 115.4 billion pounds. During 1973 and 1974, additional imports of dairy products were admitted. Even though the quantities were excessive and ill-timed, they were deemed necessary to assure consumers of adequate supplies. But, as a result of the unneeded imports, inventories of dairy products were accumulated to plague the industry into 1975, and their presence added to the cost of the dairy price support program.

For 1975, USDA forecast a half billion pound increase in milk production. As the year progressed, however, it became evident that the trend was going in the reverse direction. It now appears that 1975 milk production will not exceed 115 billion pounds.

The lower level of milk production is reflective of continued increases in prices of items necessary for milk production, relative to prices received by farmers for milk. The milk-feed price ratio is extremely unfavorable.

Dairy farmers are continuing to abandon the milk production business. There is a steady decline in the number of dairy cattle on farms, and milk production per cow has tapered off and has been running below last year.

Thus, if milk supplies are to be assured for the future, passage of S.J. Res. 121 is necessary to restore confidence of dairy farmers in the future of the milk production business and avoid further deterioration in milk production.

DEPARTMENTAL VIEWS

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., September 18, 1975.

HON. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry, U.S. Senate.

DEAR MR. CHAIRMAN: This is in reply to your request for a report on S.J. Res. 121, a joint resolution "To provide for quarterly adjustments in the support price for milk".

The Department strongly opposes this joint resolution.

This joint resolution would further amend Section 201 of the Agricultural Act of 1949, as amended, by requiring that the support price of milk be adjusted each quarter, beginning July 1, 1975, through March 31, 1979, to reflect any estimated change during the preceding quarter in the index of prices paid by farmers for production items, interest, taxes and wage rates.

The Department has consistently opposed mandatory quarterly adjustments in the support price since this would also require quarterly increases or decreases in Commodity Credit Corporation's purchase prices of dairy products. This would tend to disrupt the market and interfere with normal marketing practices. If we were expected by the industry that increased CCC purchase prices would result because of increases in the support price, manufacturers, processors, and dealers would tend to hold dairy products off the market in anticipation of receiving higher prices at the beginning of the next quarter. On the other hand, if a drop in the support price were foreseen, attempts would be made to sell as much of existing stocks as possible to CCC in anticipation of lower CCC and market prices when the next quarter began.

The disruptive effect is well illustrated by the estimated changes in the support price required by S.J. Res. 121 during the remainder of the current marketing year. If S.J. Res. 121 became effective immediately, it would require a support price of \$7.37 through September 30, 1975, and estimated support prices of \$7.32 and \$7.53 during the last two quarters of the 1975-76 marketing year. This, in turn, would result in equivalent increases and decreases in CCC dairy product purchase prices. For instance, the butter purchase price would first increase 3 cents per pound, then decrease 1.3 cents per pound, and then again increase 5 cents per pound, while the CCC purchase price for cheese would increase 1½ cents, decrease ½ cent and increase 2 cents.

The Secretary does have the authority under existing legislation to make adjustments in the dairy support price, up to 90 percent of the April 1 parity price, at any time during a marketing year according to changes in economic conditions and if such adjustments are consistent with agricultural policies for other commodities. Whenever conditions change sufficiently to warrant an adjustment in the support price, as they did during the past year, action can be taken without being

limited to the beginning of a marketing year quarter. When conditions change by only a small amount, a minor adjustment, and the resulting unnecessary disruption of the market, would not be advisable.

In addition, under the existing statute, producers have the assurance that the support price, once announced, cannot be lowered during the marketing year. Under the quarterly adjustments required by S.J. Res. 121, they would lose that assurance.

The additional costs to CCC of quarterly adjustments, as required by S.J. Res. 121, would be approximately \$60 million during the current marketing year, with similar additional annual expenditures required through March 31, 1979.

The Office of Management and Budget advises that enactment of this legislation would not be in accord with the President's program.

Sincerely,

RICHARD A. ASHWORTH,
Deputy Under Secretary.

COMMITTEE COMMENTS ON DEPARTMENTAL VIEWS

The Department of Agriculture in its report on S. J. Res. 121 draws conclusions with which the Committee disagrees.

1. USDA contends that the quarterly adjustment of CCC purchase prices would "tend to disrupt the market and interfere with normal marketing practices".

Quite the contrary, the quarterly adjustments would lend greater market stability and interfere less with market practices than does the once-per-year adjustment. The annual adjustment, by its nature, is of a greater magnitude than if made on a quarterly basis.

In view of the inflationary trends taking place throughout the economy, it is quite likely that all of the quarterly adjustments would be in the same direction. Normally, market prices for dairy products rise above CCC purchase prices during the late summer and fall months of the year, as they did this year. The quarterly adjustment of purchase prices during periods when market prices are above CCC purchase prices would have minimal effects on the market, or none. They would have none this year. The quarterly adjustment, however, would assure dairy farmers that prices they receive for milk would not be subject to as great a reduction if market prices receded to the levels established by CCC in the absence of the quarterly adjustment.

2. In its report, USDA states that S.J. Res. 121 if made effective immediately would require a price support for milk of \$7.37 through September 30, 1975, and estimated support prices of \$7.32 and \$7.53, respectively, for the last two quarters of the market year, thus resulting in both increases and decreases in CCC purchase prices.

The estimate of \$7.32 for the third quarter of the marketing year presupposes a decline in the index of prices paid by farmers for production items. There is no basis for such assumption in view of the consistent increases which have taken place in the cost or production items. The performance of the index during the current marketing year reported thus far is as follows: April 666; May 672; June 680; July 681; August 685.

Notwithstanding future movements of the index, a reduction of CCC purchase prices would have no adverse effects on the market so

long as market prices are above those established by CCC. As of September 19, the wholesale butter price on the Chicago Mercantile Exchange was 92 cents per pound, and the CCC purchase price at Chicago is 69.19 cents per pound. The price of cheddar cheese, 40 pound blocks, on the Wisconsin Cheese Exchange was 94.5 cents per pound, and the CCC purchase price is 79.25 cents per pound. Currently, nonfat dry milk is selling for 68 to 70 cents per pound, and the CCC purchase price is 60.6 cents.

In all likelihood, CCC will not purchase any dairy products during the third quarter of the current marketing year.

3. USDA comments that under the existing statute, producers have assurance that the support price for milk, once announced, cannot be lowered during the marketing year and that under the quarterly adjustments required by S.J. Res. 121 they would lose that assurance.

It is the intent of S.J. Res. 121 that quarterly adjustments would be made upward as required but that the Secretary of Agriculture could—and the Committee intends that he should—maintain prices at the higher level in the event the formula moved downward for a temporary period of time. More important than this argument is the fact that farmers would have assurance, through the quarterly adjustments, that the price support level would be responsive to the rising cost of production items during the inflationary period now confronting the Nation and which likely will continue through March 31, 1979.

COST ESTIMATE

In accordance with section 252 of the Legislative Reorganization Act of 1970, the following are estimates of the costs which would be incurred under the provisions of S.J. Res. 121.

USDA states that the additional cost of the quarterly adjustments to CCC required by S.J. Res. 121 would approximate 60 million dollars for the current market year with similar additional expenditures required annually through March 31, 1979.

The Committee believes that the 60-million dollar figure is totally without foundation. Since CCC likely will acquire no dairy products during the third quarter of the current marketing year, the only cost increase would result from higher purchase prices for dairy products acquired during the fourth quarter (January–March, 1976). In view of milk production trends, it appears to the Committee that CCC purchases of dairy products will be low. Furthermore, offsetting any potential cost increases will be income realized by the Government from resale to the domestic commercial market of butter purchased prior to July 1, 1975, and with prospects that further revenue will be realized from the sale of nonfat dry milk acquired by CCC prior to July 1, 1975.

The cost of quarterly adjustments for succeeding marketing years through March 31, 1979, cannot be estimated without knowing the parity price which will prevail on April 1 of each year, the level of price support that the Secretary of Agriculture may establish within the limits prescribed by the statute (not less than 75 percent nor more than 90 percent of the parity price), the level of milk production and the requirements of the commercial market, the volume of products which CCC may acquire, and the quantity and prices at which sales may be made by CCC back to the trade.

The Committee does not argue that there will be no additional costs resulting from the quarterly adjustments but it contends that the Department of Agriculture cannot project additional annual expenditures (approximately \$60 million) as suggested in its report.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman) :

AGRICULTURAL ACT OF 1949

AN ACT To stabilize prices of agricultural commodities

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Agricultural Act of 1949."

* * * * *

TITLE II—DESIGNATED NONBASIC AGRICULTURAL COMMODITIES

SEC. 201. The Secretary is authorized and directed to make available (without regard to the provisions of title III) price support to producers for tung nuts, honey, and milk as follows:

* * * * *

(c) The price of milk shall be supported at such level not in excess of 90 per centum nor less than 75 per centum of the parity price therefor as the Secretary determines necessary in order to assure an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. Notwithstanding the foregoing, effective for the period beginning with the date of enactment of the Agriculture and Consumer Protection Act of 1973 and ending on March 31, 1975, the price of milk shall be supported at not less than 80 per centum of the parity price therefor. Such price support shall be provided through purchases of milk and the products of milk.

(d) *Notwithstanding the foregoing provisions of this section, effective for the period beginning with the date of enactment of this subsection and ending on March 31, 1979, the support price of milk shall be adjusted by the Secretary at the beginning of each quarter to reflect any estimated change during the immediately preceding quarter in the index of prices paid by farmers for production items, interest, taxes, and wage rates. Such support prices shall be announced by the Secretary not later than thirty days prior to the beginning of each quarter.*

○

QUARTERLY ADJUSTMENTS OF SUPPORT PRICES FOR MILK

NOVEMBER 3, 1975.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. FOLEY, from the Committee on Agriculture,
submitted the following

REPORT

[To accompany S. J. Res. 121]

The Committee on Agriculture, to whom was referred the joint resolution (S. J. Res. 121), to provide for quarterly adjustments in the support price for milk, having considered the same, report favorably there on with an amendment and recommend that the joint resolution as amended do pass.

The amendment is as follows:

Page 1, line 8, strike "March 31, 1979," and insert in lieu thereof "March 31, 1978,".

PURPOSE AND NEED FOR THE LEGISLATION

S. J. Res. 121, as amended, provides that effective for the period beginning with the date of enactment of this subsection and ending on March 31, 1978, the support price of milk shall be adjusted by the Secretary at the beginning of each quarter to reflect any estimated change during the immediately preceding quarter in the index of prices paid by farmers for production items, interest, taxes, and wage rates. Such support prices shall be announced by the Secretary not later than thirty days prior to the beginning of each quarter.

Under existing law price supports for manufacturing milk are usually set at the beginning of the marketing year (April 1) at such a level not in excess of 90 percent nor less than 75 percent of the parity price therefor as the Secretary determines necessary in order to assure an adequate supply of pure and wholesome milk and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs.

Under existing law, it has been the general practice of the Department of Agriculture that the support level, in dollars and cents, an-

nounced on April 1, is not again changed until the beginning of a new marketing year even though the dollar level of support subsequently falls below the original percent of parity and in some cases even below the absolute minimum of 75 percent of parity prescribed by law. After 6 months of the current marketing year had passed the dollars and cents support level set on April 1, based on 77.8 percent of parity, had fallen to approximately 72 percent of parity.

This occurs because increases in prices paid by farmers caused the parity price for milk to increase in months subsequent to April 1. Therefore, the dollars and cents value level of support announced at the beginning of the marketing year decreases as a percent of parity over the ensuing 12 months.

Under the resolution, the level of price support established April 1, of each year, however, would be adjusted the following July 1, October 1, and January 1, to reflect estimated changes in the index of prices paid by farmers for production items, including interest, taxes, and wage rates.

For example, for the current marketing year beginning April 1, 1975, the support level for milk was established at 77.8 percent of parity or \$7.24 per hundredweight and the index of prices paid by farmers for production items was 666 (1910-14=100). Had S.J. Res. 121 been in effect the price would have been adjusted July 1 from \$7.24 to \$7.38. This adjustment would reflect the change in the index of prices paid from 666 on April 1, to 681 on July 1, or 2 percent. Had the April support level been set at 80 percent of parity as had been mandated under the provision of the Agriculture and Consumer Protection Act of 1973, which expired March 31, 1975, the April 1, 1975, support level would have been \$7.45 rather than \$7.24, the adjusted July price would have been \$7.60 and the adjusted October 1 price would have been \$7.71.

On October 1, 1975, the Secretary of Agriculture did in fact raise the support price of milk to \$7.71, 80 percent of parity. If S.J. Res. 121 had been in effect dairy farmers would have derived a great deal more benefit from the price increase since they would have known when and how much the price would be increased. Such information is invaluable to the farmer in planning his operation.

During the past few years farmers have experienced persistent increases in the cost of milk production. They like others in the economy have been victims of the inflationary trend. Although the support price level for milk has been adjusted at least annually, the changes have followed rather than kept pace with increases in the costs for producing milk.

While the Secretary increased the support level on October 1, there is no assurance that he would continue to make adjustments on a quarterly basis—in fact, he has announced he would re-examine the situation but only on a semi-annual basis and without stating what criteria would guide his actions in the future.

Passage of S.J. Res. 121 would assure dairy farmers that the milk support price, which serves as a floor for the milk price, would reflect costs on a more current basis. Farmers would be able to estimate the minimum level of purchasing power that the milk they produce would give them over the next year. This would serve to

stabilize the production of milk and alleviate some of the farmer's uncertainty. It would also alleviate the shocks created by large yearly adjustments in the support level, and help avoid milk shortages which cause sharp increases in the price to consumers. Rapid increases in milk prices tend to hurt both farmers and consumers. When prices rise rapidly, consumers cut back on usage and farmers lose part of their market.

It is the Committee's intent that the CCC purchase price of dairy products (i.e., butter, non-fat dry milk and cheese) should be announced not later than 30 days prior to the beginning date of the quarter, as the bill requires of the milk support level. It is further the Committee's intent that in making these announcements there would not be any precipitous changes in the usual and normal relationship between the commodities so that there would be as little market disruption as possible.

COMMITTEE CONSIDERATION

The Dairy and Poultry Subcommittee has conducted a number of hearings on the dairy situation throughout the country in the period July 1975 to the current date. The Subcommittee visited Vermont, New York, Pennsylvania, Minnesota, Wisconsin, California, and Tennessee. One of the matters most frequently supported was quarterly adjustments in the price support rate. The Subcommittee met in Washington, D.C. on October 21, 1975, to consider S. J. Res. 121 at which time statements in support of the bill were received from Congressmen Ed Jones, Alvin Baldus and Richard Nolan. After discussion the bill was favorably reported by the Subcommittee by a unanimous roll call vote of 10 ayes. The Subcommittee voted that S. J. Res. 121 was not the final result of their extension field hearings and that it was anticipated that meetings would be held early next year on further revisions in the dairy program.

On October 29, 1975, the Committee on Agriculture considered S. J. Res. 121. An amendment was adopted to change the terminal date of the provision from March 31, 1979, to March 31, 1978, so that it would coincide with the termination period for the balance of the major farm legislation. A proposal by Mr. Thone to increase the level of support to 90 percent of parity was rejected by a roll call vote of 12 to 16. The Committee then voted to report the bill by a show of hands vote of 24 to 1 in the presence of a quorum with a recommendation that it pass.

ADMINISTRATION POSITION

On October 2, 1975, the United States Department of Agriculture was asked by letter for its position on H. J. Res. 625 (a companion bill to S. J. Res. 121, as amended). As of the date of this report no reply has been received.

CURRENT AND FIVE SUBSEQUENT FISCAL YEAR COST ESTIMATE

Pursuant to clause 7, Rule XIII, of the Rules of the House of Representatives, the Committee estimates that there would be no cost to the Federal Government during the balance of the current marketing

year because market prices are now above the support level and are expected to remain so. The cost of quarterly adjustments for succeeding marketing years through March 31, 1978, cannot be estimated without knowing the parity price which will prevail on April 1 of each year, the level of price support that the Secretary of Agriculture may establish within the limits prescribed by the statute (not less than 78 percent nor more than 90 percent of the parity price), the level of milk production and the requirements of the commercial market, the volume of products which CCC may acquire, and the quantity and prices at which sales may be made by CCC back to the trade.

No estimate of costs was formally submitted to the Committee by a government agency.

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(1)(4), Rule XI, of the Rules of the House of Representatives, the Committee estimates that S. J. Res. 121 will have no inflationary impact on the economy. To the contrary, by reducing the uncertainty to farmers, it is anticipated that this resolution would encourage farmers to remain in the dairy industry who might have otherwise left and created a shortage of milk and thus higher milk prices which would have tended to be inflationary.

BUDGET ACT COMPLIANCE (SECTION 308 AND SECTION 403)

The provisions of clause 1(3)(B) of Rule XI of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 (relating to estimates of new budget authority or new or increased tax expenditures) are not considered applicable. There was no estimate and comparison prepared by the Director of the Congressional Budget Office under clause 1(3)(C) of Rule XI of the House of Representatives and section 403 of the Congressional Budget Act of 1974 submitted to the Committee prior to the filing of this report.

OVERSIGHT STATEMENT

No specific oversight activities, other than the hearings accompanying the Committee's consideration of S.J. Res. 121, as amended, and similar bills, were made by the Committee, within the definition of clause 2(b)(1) of Rule X of the House. No summary of oversight findings and recommendations made by the Committee on Government Operations under clause 2(b)(2) of Rule X of the Rules of the House of Representatives was available to the Committee with reference to the subject matter specifically addressed by S.J. Res. 121, as amended.

CHANGES IN EXISTING LAW

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman) :

* * * * *

TITLE II—DESIGNATED NONBASIC AGRICULTURAL COMMODITIES

SEC. 201. The Secretary is authorized and directed to make available (without regard to the provisions of title III) price support to producers for tung nuts, honey, and milk as follows:

* * * * *

(c) The price of milk shall be supported at such level not in excess of 90 per centum nor less than 75 per centum of the parity price therefor as the Secretary determines necessary in order to assure an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. Notwithstanding the foregoing, effective for the period beginning with the date of enactment of the Agriculture and Consumer Protection Act of 1973 and ending on March 31, 1975, the price of milk shall be supported at not less than 80 per centum of the parity price therefor. Such price support shall be provided through purchases of milk and the products of milk.

(d) Notwithstanding the foregoing provisions of this section, effective for the period beginning with the date of enactment of this subsection and ending on March 31, 1978, the support price of milk shall be adjusted by the Secretary at the beginning of each quarter to reflect any estimated change during the immediately preceding quarter in the index of prices paid by farmers for production items, interest, taxes, and wage rates. Such support prices shall be announced by the Secretary not later than thirty days prior to the beginning of each quarter.

○

MILK PRICE SUPPORTS

DECEMBER 10, 1975.—Ordered to be printed

Mr. JONES of Tennessee, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany S.J. Res. 121]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the joint resolution (S.J. Res. 121) to provide for quarterly adjustments in the support price for milk, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 1 and 2, and agree to the same.

That the Senate recede from its disagreement to the amendment of the House to the title of the joint resolution, and agree to the same.

ED JONES, of Tennessee,
JOSEPH P. VIGORITO,
DAVID R. BOWEN,
RICHARD NOLAN,
ALVIN BALDUS,
JOHN KREBS,
MATTHEW MCHUGH,
BOB BERGLAND,
WILLIAM C. WAMPLER,
JAMES M. JEFFORDS,
RICHARD KELLY,

Managers on the Part of the House.

HERMAN E. TALMADGE,
HUBERT H. HUMPHREY,
GEORGE MCGOVERN,
WALTER D. HUDDLESTON,
PATRICK J. LEAHY,
BOB DOLE,
MILTON R. YOUNG,
CARL T. CURTIS,

Managers on the Part of the Senate.

JOINT EXPLANATORY STATEMENT OF THE
COMMITTEE OF CONFERENCE

The managers on the part of the House and the Senate at the conference on the disagreeing votes of the two Houses on the amendments of the House to the joint resolution (S.J. Res. 121) to provide for quarterly adjustments in the support price for milk, submit the following joint statement to the House and the Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report.

AMENDMENT No. 1

TERMINATION DATE

The Senate resolution provided that the quarterly adjustment authority in the resolution shall terminate on March 31, 1979. The House amendment changed this termination date to March 31, 1978, in order that this legislation would again be considered when new farm legislation involving other major commodities is considered.

The Senate receded.

AMENDMENT No. 2

MILK SUPPORT PRICE

The Senate resolution provided only for quarterly adjustments in the support price for milk. The House amendment added a requirement that the support price for milk shall be established at 85 per centum of the parity price therefor.

The Senate receded.

TITLE OF THE RESOLUTION

The House amendment also changed the title of the resolution to reflect the provision added by House amendment numbered 2.

(3)

The Senate recessed.

ED JONES,
 JOSEPH P. VIGORITO,
 DAVID R. BOWEN,
 RICHARD NOLAN,
 ALVIN BALDUS,
 JOHN KREBS,
 MATTHEW McHUGH,
 BOB BERGLAND,
 WILLIAM C. WAMPLER,
 JAMES M. JEFFORDS,
 RICHARD KELLY,

Managers on the Part of the House.

HERMAN E. TALMADGE,
 HUBERT H. HUMPHREY,
 GEORGE MCGOVERN,
 WALTER D. HUDDLESTON,
 PATRICK J. LEAHY,
 BOB DOLE,
 MILTON R. YOUNG,
 CARL T. CURTIS,

Managers on the Part of the Senate.



MILK PRICE SUPPORTS

DECEMBER 12, 1975.—Ordered to be printed

Mr. JONES of Tennessee, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany S.J. Res. 121]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the joint resolution (S.J. Res. 121), to provide for quarterly adjustments in the support price for milk, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its disagreement to the amendments of the House and agree to the same.

ED JONES,
JOSEPH P. VIGORITO,
DAVID R. BOWEN,
RICHARD NOLAN,
ALVIN BALDUS,
JOHN KREBS,
MATTHEW McHUGH,
BOB BERGLAND,
WILLIAM C. WAMPLER,
JAMES M. JEFFORDS,
RICHARD KELLY,

Managers on the Part of the House.

HERMAN E. TALMADGE,
HUBERT H. HUMPHREY,
GEORGE MCGOVERN,
WALTER D. HUDDLESTON,
PATRICK J. LEAHY,
BOB DOLE,
MILTON R. YOUNG,
CARL T. CURTIS,

Managers on the Part of the Senate.

**JOINT EXPLANATORY STATEMENT OF THE COMMITTEE
OF CONFERENCE**

The managers on the part of the House and the Senate at the conference on the disagreeing votes of the two Houses on the amendments of the House to the joint resolution (S.J. Res. 121) to provide for quarterly adjustments in the support price for milk, submit the following joint statement to the House and the Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report.

AMENDMENT NO. 1.—TERMINATION DATE

The Senate resolution provided that the quarterly adjustment authority in the resolution shall terminate on March 31, 1979. The House amendment changed this termination date to March 31, 1978, in order that this legislation would again be considered when new farm legislation involving other major commodities is considered.

The Senate receded.

AMENDMENT NO. 2.—MILK SUPPORT PRICE

The Senate resolution provided only for quarterly adjustments in the support price for milk. The House amendment added a requirement that the support price for milk shall be established at 85 per centum of the parity price therefor.

The Senate receded.

(3)

TITLE OF THE RESOLUTION

The House amendment also changed the title of the resolution to reflect the provision added by House amendment numbered 2.

The Senate recessed.

ED JONES,
 JOSEPH P. VIGORITO,
 DAVID R. BOWEN,
 RICHARD NOLAN,
 ALVIN BALDUS,
 JOHN KREBS,
 MATTHEW McHUGH,
 BOB BERGLAND,
 WILLIAM C. WAMPLER,
 JAMES M. JEFFORDS,
 RICHARD KELLY,

Managers on the Part of the House.

HERMAN E. TALMADGE,
 HUBERT H. HUMPHREY,
 GEORGE MCGOVERN,
 WALTER D. HUDDLESTON,
 PATRICK J. LEAHY,
 BOB DOLE,
 MILTON R. YOUNG,
 CARL T. CURTIS,

Managers on the Part of the Senate.

Ninety-fourth Congress of the United States of America

AT THE FIRST SESSION

*Begun and held at the City of Washington on Tuesday, the fourteenth day of January,
one thousand nine hundred and seventy-five*

Joint Resolution

To provide for quarterly adjustments in the support price for milk, and for other purposes.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That section 201 of the Agricultural Act of 1949, as amended, is further amended by adding at the end thereof the following new subsection:

“(d) Notwithstanding the foregoing provisions of this section, effective for the period beginning with the date of enactment of this subsection and ending on March 31, 1978, the support price of milk shall be established at 85 per centum of the parity price therefore and shall be adjusted by the Secretary at the beginning of each quarter to reflect any estimated change during the immediately preceding quarter in the index of prices paid by farmers for production items, interest, taxes, and wage rates. Such support prices shall be announced by the Secretary not later than thirty days prior to the beginning of each quarter.”.

Speaker of the House of Representatives.

*Vice President of the United States and
President of the Senate.*

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE SENATE OF THE UNITED STATES:

I am withholding my approval from S. J. Res. 121, which would increase the Federal support price for milk and require mandatory quarterly adjustments, for the following reasons:

1. It would saddle taxpayers with additional spending at a time when we are trying to cut the cost of government and curb inflation.
2. It would stimulate excessive production of milk, discourage consumption, force the Federal government to increase purchases of dairy products under the milk support program and build up huge and costly surpluses.
3. It would result in unnecessarily high consumer prices.

Under this bill, government outlays would be increased by \$530 million, including \$180 million during the 1976-77 marketing year and \$350 million during the subsequent 1977-78 marketing year. In addition, consumers would be required to pay an estimated \$1.38 billion more at retail for dairy products over the next two years.

If S. J. Res. 121 became law, the support level for milk would be set at 85 percent of parity, with adjustments at the beginning of each quarter, through March 31, 1978. This would result in substantial increases in the support level over the next two marketing years without taking into account either changing economic conditions or agricultural policies.

In disapproving similar legislation last January, I said: "To further reduce the demand for milk and dairy products by the increased prices provided in this legislation would be detrimental to the dairy industry. A dairy farmer cannot be well served by Government action that prices his product out of the market." This is still the case.

As far as this Administration is concerned, future changes in the price support level will be based, as in the past, on a thorough review of the entire dairy situation. Major economic factors, including the level of milk production, recent and expected farm prices for milk, the farm cost of producing milk, consumer prices and government price support purchases and budget outlays, will be considered. Elimination of this thorough review by mandating an inflexible support price would be inadvisable.

As you know, present legislation provides the Secretary of Agriculture with sufficient flexibility to increase the level of milk price supports between 75 and 90 percent of parity whenever the conditions indicate that an increase is necessary and advisable. The two increases announced by the Secretary of Agriculture last year--one in January and another in October--should make it clear that this Administration intends to provide the price assurance dairy farmers need.

In this regard, to ensure adequate milk price support levels, I have directed the Secretary of Agriculture to review support prices quarterly, starting April 1. If it appears necessary and advisable to make price support adjustments to ensure the supply of milk, the Secretary of Agriculture will do so.

In vetoing S. J. Res. 121, I urge the Congress to join me in this effort to hold down Federal spending, milk surpluses and consumer prices.

GERALD R. FORD

THE WHITE HOUSE,
January 30, 1976

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January 19, 1976

Dear Mr. Director:

The following bill was received at the White House on January 19th:

✓S.J. Res. 121

Please let the President have reports and recommendations as to the approval of this bill as soon as possible.

Sincerely,

Robert D. Linder
Chief Executive Clerk

The Honorable James T. Lynn
Director
Office of Management and Budget
Washington, D. C.

