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## THE WHITE HOUSE

WASHINGTON

March 11, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON *Jim*

SUBJECT: MEMORANDUM FROM JIM LYNN ON FARM  
TARGET PRICES

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In the attached memorandum Jim Lynn outlines the current status of the attempt by the Democratic leadership to push through a bill increasing the target prices which trigger government subsidy for farm products.

We discussed this with Secretary Butz and he is waging an all-out campaign against this bill. He thinks they have a fifty-fifty chance of beating it in the House and there is virtually no chance of an override should the bill pass and you decide to veto it. Max Friedersdorf concurs with this assessment.

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

March 4, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Information Memorandum on Agricultural Commodity Target  
Prices

Producer income from wheat, feed grains, and cotton is supported by a system of target prices and loan levels for those commodities established in agricultural legislation passed in 1973. Whenever market prices average below target prices over specified time periods, the deficiency is made up by direct payments from the Treasury. Because of the current high commodity prices, no payments have been made, even though the targets were initially set at high levels. There has been little or no commodity loan activity since loan levels are well below both market and target prices.

Under the law, target prices will be adjusted next year to reflect any increase in production costs during this calendar year and any changes in productivity. They will not, however, be adjusted to reflect the increase in costs during 1974.

With costs of production still rising, and with commodity prices drifting downward, producers are seeking legislative action to raise target prices for this year and later years. The principal motivation is to:

- Lock up high prices and prevent a drop in income.
- Protect record high land values.

The high land values result largely from recent high prices for farm products. They are viewed by some producers as a significant contributor to the upsurge in production costs, and as justification for a large increase in Federal support. If such additional support were forthcoming, risk would be reduced, thereby giving another push to land prices. Thus does the ratcheting proceed, and the need for Federal subsidies continue to feed on itself.

The Senate Agriculture and Forestry Committee has held hearings on the issue of raising target prices and loan levels. Secretary Butz, in

his appearance before that committee indicated his opposition to higher targets, but left the door open for compromise. The House Agriculture Committee is marking up a bill and seems to be heading for a schedule of target prices and loan levels which USDA estimates could increase Federal outlays by \$600 million in FY 1976; \$3.4 billion in FY 1977 and \$5.2 billion in FY 1978. The estimates assume that 1975-crop corn and wheat prices would average \$2.50 and \$3.50, respectively. However, if we get the kind of output indicated by the planting intentions report, corn prices could decline to around \$2 per bushel and wheat to around \$2.25. Under the proposed bill such an eventuality would mean deficiency payments for grains in FY 1976 of around \$3.8 billion.

Other problems in addition to the budget exposure are:

- Undermines the Administration's policy of keeping the government out of regulating agricultural production and buying and selling commodities, thus freeing farmers to respond to the demands of the market.
- Places another prop under land values.

Secretary Butz is now meeting with Chairman Foley, presumably to try to reduce the amount of the increase. We do not know what levels would be acceptable to the Secretary and to the Congress. The Secretary testified that target prices should not be set at incentive levels nor loans at levels so high that the government would have to acquire surplus commodities.

We are continuing to oppose any increase in target prices. I will meet with Secretary Butz shortly to discuss strategy.

I think a strong case can be made against raising targets, but it is only now coming before the public. If urban representatives are not aware of the real implications, they are likely to support higher targets in exchange for rural support of more liberal feeding programs (especially food stamps). Thus the total bill for improved farm income guarantees could be far higher than indicated.