The original documents are located in Box 1, folder "Belin, David" of the Richard B. Cheney Files at the Gerald R. Ford Presidential Library.

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OFFICE OF THE PRESIDENT

WASHINGTON, D.C.

From the President:

To: Dick Cheney

Date: Time a.m. p.m.

What is status? check on Dave Belin for asst att. Gen.?

GRF

12/4

11-22-74

Summary of Alternative Milk Price Actions

1. Announce now that the support price will be raised to 80 percent of parity, as of April 1, 1975, for the 1975-76 marketing year.

   This would assure producers now of a price of about $7.60 next Spring when prices otherwise would normally begin to weaken. At the same time, it would commit the Department to the higher price, through March 1976, regardless of what happens in the interim.

2. Increase support price to $7.17 per hundredweight (80 percent of the most recent parity price) from now until next March 31.

   This would increase all milk prices and give immediate relief to the present cost-price squeeze. It also would increase CCC's prices, purchases, and costs.

3. Increase Class I Prices in Federal Order Markets by Establishing a Floor Price of $7.50.

   This would give some relief to producers of Grade A milk in Federal orders, but would not really satisfy them and would make other producers even more dissatisfied than they already are.

4. Take No Action.

   Neither higher support or higher Class I prices are needed to assure adequate milk supplies; there is presently no shortage of either manufacturing or Class I milk. However, some price action by the Government now may be necessary to relieve the critical cost-price squeeze and assure adequate supplies in the future.

11-22-74

MILK PRICES

I. Alternative USDA Actions and Major Considerations

1. Announce now that the support price will be raised to 80 percent of parity, as of April 1, 1975, for the 1975-76 marketing year.

PRO

(a) With market prices already increasing, and likely to increase more during the short production months ahead, no immediate action by the Department is necessary.

(b) Early announcement of next year's support at 80% of parity would assure producers now of a price of about $7.60 next Spring, when market prices would normally begin to weaken seasonally.

(c) This assurance would help achieve the 1973 legislative goal of assuring supplies "sufficient to meet anticipated future needs".

(d) Would not be inflationary, not now and perhaps not much in the future, assuming that market price levels will be going up anyway.

(e) Would not increase CCC's purchases and costs for the remainder of this marketing year.

(f) Next year's support level will have to be announced in three or four months anyway.

CON

(a) Once announced, the support price could not be lowered next year, regardless of any changes in economic conditions between now and then.

(b) Would not completely satisfy proponents of "higher prices now"--too little, too late.

2. Increase support price to $7.17 per hundredweight (80 percent of the most recent parity price) from now until next March 31.

PRO

(a) Is recommended by nearly every segment of the industry as the most desirable action for the Department to take.

(b) Would increase prices of all milk, Class I and milk used for manufacturing; would benefit all producers. No further action would be necessary on Class I prices in Federal orders.

(c) Would give immediate relief to the present cost-price squeeze.

(d) Would help assure production of more adequate supplies in the future. Otherwise, if production begins to decline in the months ahead, supplies could be short and prices high.

(e) Would make it relatively "easy" to drop back to a support level of 75% of parity next April 1, now estimated at $7.12.

CON

(a) Would increase consumer prices of fluid milk at a time when consumption already is lagging and more milk is being diverted to manufacturing.

(b) Would raise CCC's purchase prices (and market prices) of manufactured products at a time when commercial stocks already are at or near record levels and Government purchases of nonfat dry milk and cheese are relatively heavy. Purchases and costs would increase.

(c) Would give milk producers a further advantage over other livestock producers, who have no support program, in competition for reduced supplies of high-priced feed.

(d) Would further encourage milk production which already is increasing compared to a year earlier; October production was up 2.2 percent.

(e) Would generate expectations and pressure for a continuation of support at 80 percent of parity next year.

3. Increase Class I Prices in Federal Order Markets by Establishing a Floor Price of $7.50.

PRO

(a) Would provide some price assistance to producers of Grade A milk in Federal order markets. Generally, these producers have the largest investments and may be feeling the cost-price squeeze somewhat more than others.

(b) Would provide some encouragement to those producers and thereby assure continued production for the future.

CON

(a) Although some reserve supplies of fluid milk are necessary, there already is nearly twice as much milk in Federal orders as is needed for Class I uses. So far this year, only 56 percent of the milk in order markets was used in Class I. Nationwide, only 35-40 percent of all milk produced is used in Class I.

(b) Increasing Class I prices would raise consumer prices and further discourage fluid consumption. It would increase diversion to manufacturing. This would push manufacturing milk prices, which would not be helped by a Class I action anyway, down even further, thus dealing Grade B producers a "double whammy".

(c) Increasing Class I prices would be of most benefit outside major milk production areas where nearly all of the milk produced is needed for fluid use--Florida, Georgia, etc. It would be of least benefit to producers in such States as Wisconsin, Minnesota, Iowa, North and South Dakota, where much of the milk produced is used for manufacturing.

(d) The proposed action would increase prices this winter only, when prices are at their highest levels anyway. As prices would drop seasonally next Spring, at the same time the floor price of $7.50 expired, the Department would almost be forced to then take further actions, either Class I or higher price supports.

(e) Establishing a floor price through March would have no effect on prices for another two or three months unless the "forward pricing" provisions in Federal orders were temporarily deleted. This, however, would be a hardship on handlers who already have planned on present prices so far as their future operations are concerned.

4. Take No Action.

PRO

(a) There is no shortage of fluid milk; there is no shortage of manufacturing milk. CCC's purchases now total about 215 million pounds of nonfat dry milk, 55 million pounds of cheese, and 30 million pounds of butter.

(b) Milk production, compared to a year ago, has increased the last four consecutive months.

(c) Market prices for manufacturing milk have risen substantially in recent months from a low of $6.41 to October's $6.83 Prices normally increase further during the winter months, the high months being November and December.

(d) Raising prices through either support or Federal orders would increase consumer prices and be inflationary.

(e) With higher market prices likely in the next few months, followed by seasonal declines later, the need for price actions (if any) will be more pronounced next Spring than now. Thus, price actions should be delayed at least until the beginning of the next marketing year. At that time, a decision to increase supports could be more safely made in terms of conditions at that time.

CON

(a) Some immediate price action by the Government is necessary to meet rising production costs, prevent wholesale liquidations of dairy farms, and thereby assure the adequate future supply mandate of the 1973 Act. This will help prevent later, larger price increases than would likely result from any actions the Department would contemplate.

(b) Increasing the support for the rest of this year would not cost very much if market prices continue to increase as expected.