



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

~~File is a copy~~
Note the fact that LBJ is involved in decisions about what soldiers should have for breakfast. An example of micromanagement?

January 22, 1966

MEMORANDUM FOR: The President
The White House

FROM: Orville L. Freeman
Secretary of Agriculture

SUBJECT: (1) Defense Department Food Purchases
(2) Food Price Prospects

(1) Defense

At your request we have made a careful review of Defense food needs in relation to food price prospects.

Specific recommendations to ease the impact of military purchases on food prices have been sent to Secretary McNamara as follows:

(1) Initiate barter arrangements trading U.S. feed grains for pork and possibly beef from European sources to supply commissaries and other non-appropriated uses beginning about March 1 and continuing for six months. This will ease the pressure a bit on meat prices here and will not involve dollar outflow.

(2) Pork products, particularly bacon, are served almost daily in domestic military installations. Since pork prices will be high for some months, the number of servings should be reduced by about 50 percent for the next six months. Poultry, eggs, turkeys, seafood and selected beef items where prices are not so strong can be substituted.

(3) Purchases of canned peaches, pears, cherries and fruit cocktail should be cut 25 percent in the immediate months ahead. Supplies are low and prices are high. Canned apricots, apple slices, apple sauce, purple plums, pineapple, grapefruit sections, canned and frozen citrus juices can be substituted since supplies are greater.

(4) Purchases of canned tomato products and corn should be deferred until late spring when the supply will be greater. Stocks of canned snap beans and peas are larger than a year ago; purchases should be directed toward these items.

My letter to Bob McNamara is attached.

RECEIVED

(2) Food Price Prospects

The December Wholesale Price Index showed farm product prices and processed foods up over November.

Since mid-December farm product prices have increased another 1-1/2 percent and processed food 3/4 percent. The attached table shows December to January price changes.

The January Wholesale Price Index will show a further rise when published in February. Retail food prices which lag behind wholesale prices may increase 2 percent or so the next 2 to 3 months before weakening later in the year.

In January butter, cattle and wheat have been stabilized and eggs are lower. We have not been able to hold vegetable oil and corn prices to our target levels, but we believe we can do it soon. Real relief in hog and cattle prices is not expected until spring.

To moderate prices we are:

- offering substantial corn and wheat at interior and terminal markets.
- postponing meat purchases for needy families but not to the point of hurting their diets.
- postponing vegetable oil shipments under PL 480.
- considering actions to increase wheat supplies from the 1966 crop as set down in an earlier memorandum.

Apart from actual short supplies of hogs, cattle and poultry, speculation in grains, soybeans and vegetable oils appears to be the key to our price increases. There is plenty of corn without CCC sales, yet we have rising corn prices despite our sales. With a record soybean crop there is plenty of vegetable oil and a heavy crush of soybeans. Yet prices are creeping up. We cannot control margins directly on the commodity exchanges, but we are exploring higher margin requirements to reduce speculation.

We do not see any immediate anti-trust problems in connection with food prices. Marketing margins are not widening, and we understand the Food Marketing Commission will conclude that the industry is generally competitive. We have discussed this with the Attorney General's Office.

Attachments

Wholesale Prices of
Selected Commodities

Commodity	Unit	Dec. 15	Dec. 23	Jan. 14
Butter	Cts. lb.	64.50	60.50	60.00
Soybeans	Dol. bu.	2.668	2.674	2.76
Hogs	Cts. lb.	28.25	29.14	30.35
Cattle, Choice	Cts. lb.	26.38	26.50	26.75
Eggs	Cts. doz.	44.25	38.25	37.00
Wheat, K.C., Ordinary	Dol. bu.	1.61	1.62	1.64
Corn, #2 yellow	Dol. bu.	1.254	1.258	1.33 3/4
Soybean oil, crude (Decatur)	Cts. lb.	11.22	11.00	12.1
Cottonseed oil, crude (Valley points)	Cts. lb.	11.88	11.88	12.75
Broilers, New York	Cts. lb.	26.5 27.5 1/	25.5 26.0	29.5

1/ Monday contract price. Market News indicates Monday prices more representative than within week price ranges.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

JAN 22 1966

Honorable Robert S. McNamara
Secretary of Defense
Washington, D. C.

Dear Bob:

As you know the President wants us to help minimize the price impact of Defense food purchases. With hog and cattle marketings down retail food prices will continue to provide serious price stabilization problems over the next several months.

We have adjusted a number of our food purchases and commodity sales programs to stabilize prices. Even though Defense purchases amount to only 2 percent of all food, the timing and composition of purchases can be important to price stability.

Our economists have reviewed your military food requirements and procurement procedures, and the supply-demand situation for food with Mr. Ignatius and his staff. On the basis of this review, I recommend that the military services take the steps set out below to help keep domestic food prices in line without impairing the effectiveness of your food services and military operations. These recommendations have been reviewed with Mr. Ignatius and his staff.

The steps I recommend are as follows:

1. Supply pork and beef to European commissaries and to non-appropriated funds activities (officers club, etc.) for about the next six months from European sources to the extent that such procurement can be made through barter for agricultural commodities to avoid any dollar outflow. There appears to be a good chance to make such arrangements beginning about March 1. This would relieve some domestic price pressure at a time when it may be most intense. We will review this regularly and advise you as to the desirability of continuing it.

2. Reduce the number of servings of pork products from primal cuts, particularly bacon, in domestic military installations by about 50 percent over the next six months. This would mean, for example, reducing the frequency of serving bacon from about 5 times to 2 to 3 times per week. In making such reductions we would recommend that lower priced items, such as poultry, eggs, turkey, seafood and selected beef items be substituted. The output of poultry products can be increased more rapidly than that of pork or beef, and we expect a substantial expansion in poultry meat production over the next several months.

3. Reduce purchases of canned peaches, pears, cherries and fruit cocktail over the next six months by at least 25 percent. Stocks of these products are down substantially and prices have risen sharply. Instead, greater usage can be made of canned apricots, apple slices, apple sauce, purple plums, pineapple, grapefruit sections, and various canned and frozen citrus juices, especially orange juice, all of which are in larger supply.

4. Delay purchases of canned tomato products and corn until late spring, and shift to canned snap beans and peas which are now more plentiful.

We are continuing a detailed analysis of your full 1966 food procurement schedule for commodities and may suggest additional changes to help avoid serious price impacts in the months ahead.

Mr. Koffsky, our chief economist, will work closely with Mr. Ignatius' office to insure that our people are sensitive to the particular requirements of the military services, and that the special knowledge of commodity and food price projections which is part of our job is available to your Department.

We appreciate very much the help and cooperation which Mr. Ignatius, Mr. Riley and Admiral Bottoms have shown us.

Sincerely yours,

Phillip A. Fuman

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

Defense Food

Carl Freeman

10:30 a.m., Friday
January 14, 1966

FOR THE PRESIDENT

FROM Joe Califano *jc*

Attached is Orville L. Freeman's first report on Department of Defense food purchasing policies. I will get with Orville on the other tasks you levied on the Agriculture Department to take appropriate actions to keep the prices on food down.

Attach.

*Get reports from
time to time from
Freeman & reference
Acad to me
N*

Orig to Mrs. Terrell



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

JAN 12 1966

MEMORANDUM TO: The President
The White House

THROUGH: Joseph Califano

FROM: Orville L. Freeman
Secretary of Agriculture

SUBJECT: Defense Department Food Purchases

In response to your telephone call last week to the Under Secretary, our chief economist has reviewed food procurement procedures with Paul Ignatius' people at the Defense Department. They are now preparing a summary of the principal purchases of staple foods to be made in the next year. In the meantime we will be consulted if any large purchases are planned.

Our economists will review these prospective purchases to determine if the timing or quantity will have significant price effects. Where significant price effects seem likely, we will advise the Defense Department and recommend alternatives such as:

- (1) Substitution of Products -- Other meats for pork, for example.
- (2) Change in Timing Purchases -- Buying a larger proportion of needs for storable products such as canned bacon, in seasons of high production when prices are lower.
- (3) Other -- The possibilities of making other adjustments such as changing the place of purchase or product specifications will also be considered.

We will advise you of steps taken to lessen the influence of purchases by the Defense Department on prices paid by consumers for food. We expect to face some situations where purchases must be made even though there will be price increases. Defense has been very helpful and cooperative on this.