Hon. Herbert Lehman  
United States Senate

Dear Senator:

This is in reply to your letter of March 10 in regard to the request from the New York Mercantile Exchange for a freight differential in the Government buying price for butter at New York over the midwestern producing area and the interest of Local 202 of the International Brotherhood of Teamsters in this matter.

The subject relates to the program outlined in the enclosed announcement of December 22 to support prices to producers for milk and butterfat in accordance with the Agricultural Act of 1949. In carrying out the supports, the Department is committed to purchase butter and other dairy products at announced prices through March 1951. As under the 1949 program, the Department will stand ready to purchase the products at the same price wherever offered at any location in the United States.

The present method has certain advantages. One is that the acquisition and storage of a large proportion of the supplies acquired under the program in the area of production facilitates subsequent disposal. These supplies may later be sold to the trade for commercial distribution in accordance with the relative demands in the different consuming markets or may be distributed for school lunch uses in accordance with the needs, with a minimum of handling and transportation cost to the Government. Another advantage of the present program is that avoiding the determination of a different price for every location facilitates the operation for both the industry and the Government.

Specific evidence has not been furnished which would indicate that the Department's program interfered with the distribution of approximately 1,300,000,000 pounds of butter consumed in 1949 or that total consumption would have been significantly different in any area if the purchase program had been operated on the basis of area price differentials. Evidence has not been supplied that any store in any area did not have all of the butter that its customers would buy at the prevailing prices.
The purpose of the dairy products purchases is to support prices to producers for milk and butterfat. Inasmuch as the milk and butterfat prices recently have been above the announced support level, and in view of the problems of disposing of stocks acquired under the program, we are particularly hesitant to make any change in the purchase programs which would have the effect of increasing prices or of resulting in larger purchases.

The Department found it necessary to purchase 114 million pounds of butter in 1949 to carry out the milk and butterfat support program. It has been possible to sell back into trade channels only 9 million pounds. Because of the problems of handling and disposing of perishable products such as milk and its products, I have recommended legislative authority to use an alternative support method of direct payments to producers. Such a method would permit market prices to adjust to the levels at which consumers could buy and consume increased supplies of these perishable products. Such a program also would mean an increased volume of business in the handling, transportation, and distribution of such commodities in commercial trade channels.

Sincerely yours,

[Signature]
Secretary

Enclosure