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THE WHITE HOUSE
WASHINGTON

February 24, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN
FROM: JAMES E. CONNOR
SUBJECT: Loan Rates on Wheat, Corn
and Soybeans

Confirming phone call to your office this morning, the President reviewed your memorandum of February 21 on the above subject and approved the following:

Option 1 - Increase 1976 crop year loan rates from \$1.10 to \$1.25 for corn, from \$1.37 to \$15.50 for wheat, and reinstitute the soybean price support loan program with the loan rate set at \$2.50 per bushel.

This decision has been communicated to Secretary Butz. Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE

WASHINGTON

February 23, 1976

MR PRESIDENT:

Loan Rates on Wheat, Corn
and Soybeans

Staffing of the attached memorandum from Bill Seidman on the above subject resulted in the following:

Messrs. Friedersdorf, Buchen and Marsh all recommend Option 1.

Secretary Butz is most anxious to have a decision on this matter.

Jim Connor

THE WHITE HOUSE

WASHINGTON

February 21, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*
SUBJECT: Loan Rates on Wheat, Corn and Soybeans

Background

Farm price support legislation specifies target prices quite precisely but leaves wide discretion to the Secretary of Agriculture on the loan rate -- the price at which the Commodity Credit Corporation purchases effectively support the market.

The 1976 target prices for corn, wheat and cotton will be increased shortly in compliance with a statutory formula. The loan rate for cotton must also be adjusted annually in accordance with a statutory formula.

Loan rates for corn and wheat in both 1974 and 1975 were set at the minimum level prescribed by law -- \$1.10 per bushel for corn and \$1.37 per bushel for wheat. Price support loans are not required for soybeans and in 1975 the soybean loan program was terminated after having been in effect since 1941. (The soybean loan rate in 1974 was \$2.25 per bushel.)

There has been some effort in the Congress to require statutory increases in the loan rate for wheat and corn on a formula basis. USDA is seeking to defuse those efforts by administratively increasing the loan rates for wheat and corn in line with the formula increases for the target prices and to reintroduce a loan rate for soybeans.

Issue: Should Commodity Credit Corporation loan rates for corn, wheat and soybeans for the 1976 crop year be increased as proposed by USDA, or should they remain unchanged from 1975 levels?

- Option 1: Increase 1976 crop year loan rates from \$1.10 to \$1.25 for corn, from \$1.37 to \$1.50 for wheat, and reinstitute the soybean price support loan program with the loan rate set at \$2.50 per bushel.
- Option 2: Maintain the loan rates for corn, wheat, and soybeans at 1975 levels.

Economic Effects of an Increase in the Loan Rates

Since the expected 1976 crop market prices for corn, wheat and soybeans are substantially higher than the proposed loan rates, the USDA proposal should not affect 1976 crop production, demand or prices. Farm prices have not come near the proposed loan rate levels in the past three years. Prices received by farmers as of January 15, 1976 were \$2.44 for corn, \$3.43 for wheat and \$4.46 for soybeans.

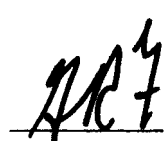
Budget Impact of an Increase in the Loan Rates

OMB estimates an FY 1977 outlay increase of \$100 million if the interest rate is set at 7.5% (\$60 million if the interest rate is set at 9%) as detailed in the table at Tab A.

In the past the interest rate charged to carry these inventory loans was below the Treasury's cost of money. USDA now proposes to put the rate at 7.5% which will cover Treasury borrowing costs plus a small amount for administrative overhead. USDA believes that the political resistance to raising the interest rate to cover the cost of money plus the administrative overhead (7.5%) will be very substantially less than the resistance to going to a private market rate (about 9%).

For both grains and soybeans the higher budget outlays in fiscal 1977 do not reflect increased costs to the Government. It results from loan outlays incurred in fiscal 1977 which in part will not be repaid until fiscal 1978. In all cases, it is anticipated that all loans will be repaid ultimately.

Decision

- Option 1  Increase 1976 crop year loan rates from \$1.10 to \$1.25 for corn, from \$1.37 to \$1.50 for wheat, and reinstitute the soybean price support loan program with the loan rate set at \$2.50 per bushel.

Supported by: Agriculture, State, OMB
Commerce, Seidman, Morton, Domestic Council

OMB does not object to the increase in the loan rate, but does believe that USDA should move toward a market interest rate as rapidly as is feasible recognizing that it may be far more feasible next year.

Option 2 _____ Maintain the loan rates for corn, wheat, and soybeans at 1975 levels.

Supported by: Treasury

CEA and NSC do not wish to express a view on this issue.

Raising Loan Rates for 1976 Crops of Wheat, Corn and Soybeans

Outlay Changes

| <u>Item</u> | <u>Loan Rates (\$/Bu)</u> | | <u>FY 1977 Outlay Increase (Mil. \$)</u> | |
|-------------|---------------------------|-----------------|--|----------------------------------|
| | <u>Present</u> | <u>Proposed</u> | <u>Interest rate at 9%</u> | <u>Interest rate at 7.5%</u> |
| Wheat | 1.37 | 1.50 | 7 | 20 |
| Corn | 1.10 | 1.25 | 10 | 25 |
| Soybeans | 0 | 2.50 | <u>43</u> 60 | <u>55</u> 100 |

February 23, 1976

MR PRESIDENT:

**Loan Rates on Wheat, Corn
and Soybeans**

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| Corn | 1.10 | 1.25 | 10 | 25 |
| Soybeans | 0 | 2.50 | 43 | 55 |
| | | | <u>60</u> | <u>100</u> |

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG. NO.:

Date: February 21, 1976

Time:

FOR ACTION:

cc (for information):

✓ Phil Buchen

✓ Jack Marsh

✓ Max Friedersdorf

FROM THE STAFF SECRETARY

DUE: Date: Monday, February 23

Time: Noon

SUBJECT:

L. W. Seiden Memo 2/21/76 re Loan Rates
on Wheat, Corn and Soybeans

ACTION REQUESTED:

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

REMARKS:

Secretary Butz has requested that this issue be sent quickly to the President. A quick turn-around would be appreciated.

Marsh - Agree with OMB (option 1)
Friedersdorf - Option 1
Buchen - Per Lazarus agree with Seiden

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.

James E. Connor
For the President

THE WHITE HOUSE
WASHINGTON

February 21, 1976

To: Jim Connor

From: Roger Porter *RP*

Secretary Butz has requested that this issue be sent to the President as quickly as possible. It was reviewed at the Friday EPB Executive Committee meeting and has been staffed to the EPB, NSC, Domestic Council, and Morton.

THE WHITE HOUSE
WASHINGTON

February 23, 1976

MEMORANDUM TO: JIM CONNOR

FROM: MAX FRIEDERSDORF *M.F.*

SUBJECT: L. W. Seidman Memo of 2/21/76 re
Loan Rates on Wheat, Corn and
Soybeans

The Office of Legislative Affairs has reviewed subject memo
and concurs with Option 1.

Attachment