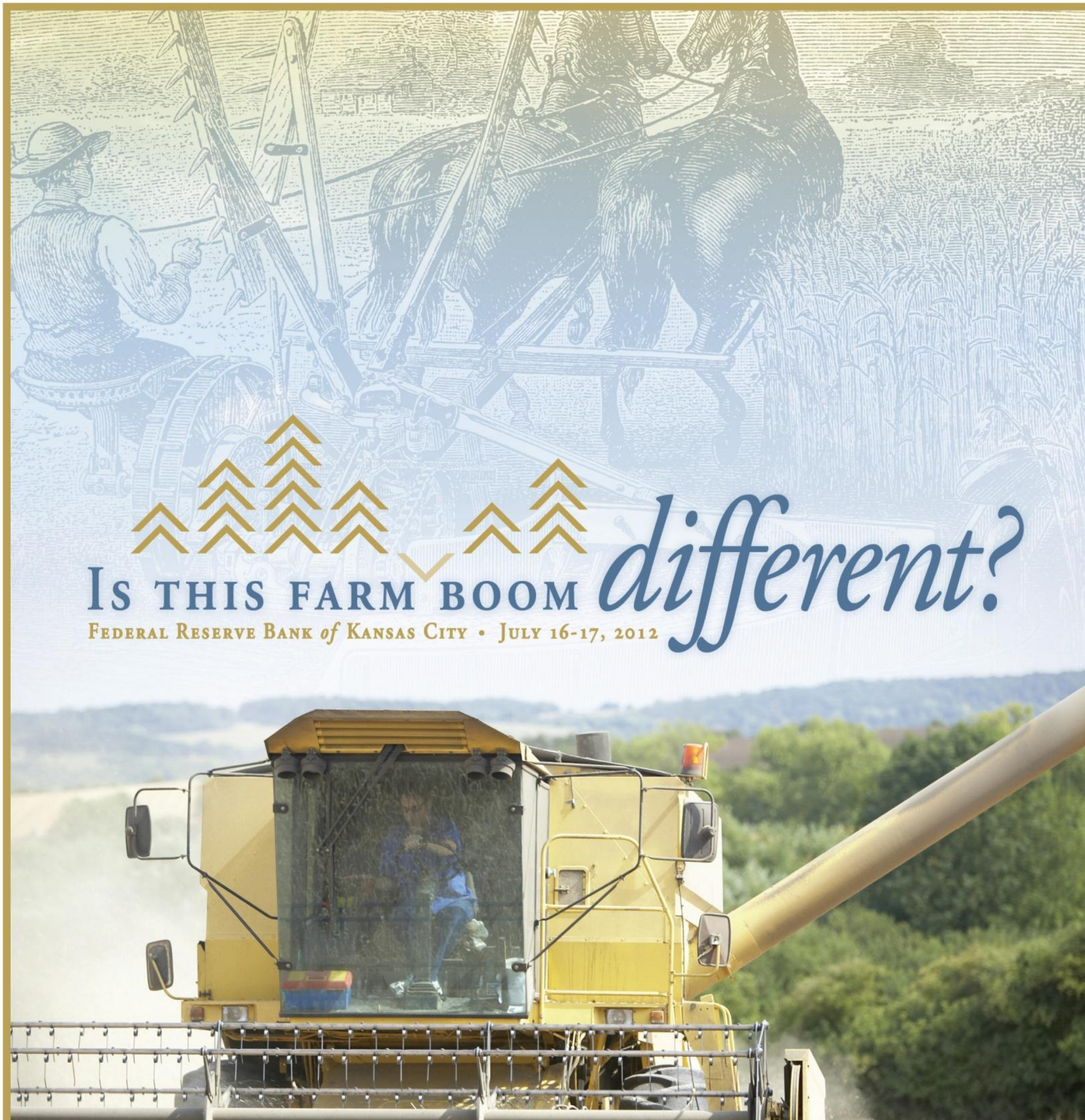

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Keynote Address: Reflections of the Past

Reflections of the Past (Remarks)

Ambassador Clayton Yeutter

Former U.S. Trade Representative and Secretary of of Agriculture

Many thanks for inviting me to participate in this symposium. It is certainly a "front burner" topic in American agriculture these days, as is evident from the huge turnout for this event. My congratulations, Madam President and Jason, for having the foresight to plan such a symposium, particularly since it is just ahead of a critical Presidential election here in the U.S. And thank you for doing it in this beautiful facility.

My assignment today involves providing you with more questions than answers, for you have some of the most talented agriculturalists in this country following me on the program. They'll provide the answers! In addition to provoking questions, I will seek to provide an historical perspective , in political/economic terms. I cannot reach back 100 years, but I can probably reach further than almost anyone in the room. So, let's look at what Jason calls the golden eras of U.S. agriculture, as well as some that are not quite so golden.

As all of you know, American farmers are eternal optimists. So if you pose to them the question, "Is this farm boom different?" the answer from most will be: "Of course it is." That response will be based on what has happened to global demand in recent years, present commodity price levels, the world's growing population, the emergence of huge numbers of middle income consumers in developing countries, and all the other positive factors that will surface in presentations you are about to hear. Farmers can visualize the pot of gold at the end of the rainbow. One must recognize, however, that there is considerable emotion involved in that assessment of the future, and that in the long run emotion must be supported by fact if it is to be credible. Perhaps history will provide a bit of realism to this picture.

As Jason Henderson has noted, the first golden era of American agriculture was in the 1910-14 period, just ahead of World War I. In those years the U.S. economy was beginning to mechanize, railroads were making it possible to ship goods across the country, demand was rising in the aftermath of the Spanish American War and as World War I approached, American confidence was high, Teddy Roosevelt was an inspiration to many, and our population was increasing. For farmers of that period, what was not to like about all that?

The ag economists in the room will recall that this was when the concept of “parity” was born. Farmers felt that if the government would just insure that the economic relationship between them and non-farmers would stay as it was in 1910-14 they’d do all right. And indeed they would have. With the improvements in agricultural productivity that have occurred since then, parity price relationships that prevailed in 1910-1914 would today provide super-attractive farm incomes (and for much of the period since 1910-1914 for that matter). Some of our farm organizations pushed for parity price guarantees by the Federal government for decades, but to no avail. Because of the potential taxpayer cost, the concept was never again financially viable. So, there’s not much to be learned from those years, when farm machinery was pulled by horses, not the powerful tractors of 2012.

Farm demand expanded during World War I, as we helped feed our troops in Western Europe, but the end of the war required an economic adjustment. The non-agricultural economy enjoyed the “Roaring ‘20s,” which might today be construed as a “bubble” that then burst in 1929 and through the 1930s. Agriculture had less of a bubble, but took it on the chin big time in the 1930s. As you will recall, demand collapsed, with unemployment rates soaring beyond 20 percent. The performance of the Federal Reserve in that era was less than sterling, and Congress contributed to the debacle through Smooth Hawley legislation, which brought global trade to a halt.

Supply collapsed too, by virtue of a drought even worse than the drought of 2012. I was growing up as a little boy on a Nebraska farm in those years, and I still have memories, nightmares might be a more apt description, of those years. We were fortunate to have survived them, for thousands of farm families did not survive. The government helped, through the AAA – which was not all that different from some of today’s commodity programs – and through the Works Projects Administration (WPA), which created jobs by developing our nation’s infrastructure, to some extent at least. WPA workers dug an irrigation canal within a mile or so of our farm. That canal is still in use today, and it might even have passed muster on a cost/benefit ratio basis. Lots of WPA programs did not do so. Perhaps the only lesson of consequence to be learned from the economic pain of the 1930s is that a farm safety net has value. Farmers, even today, are exposed to uncontrollable risk to a greater extent than most anyone in American society. So, programs to insure against some or all of that risk, with or without taxpayer subsidies, are in order.

U.S. agriculture was rescued from the depression not by government assistance, though that may have helped a bit, but by World War II. The demand for food expanded significantly, as we sought to provide a satisfactory diet for the largest military force this country had ever had. Gasoline was rationed, and there were other inconveniences imposed on all of us, but overall the war effort was magnificent. The level of patriotism demonstrated during those four years was beyond anything we've seen in my lifetime, and we may never see it again. In general farmers prospered, but they were all wary of the adjustment that would follow once the war concluded. The general view throughout the United States was that we might well fall back into another depression, or at least a major recession.

I can recall my father being very conservative at the time, not wanting to borrow money if he could possibly avoid it. He even paid cash for some of the land adjoining ours. Fortunately, the country came through the post-war period in fine fashion. Demand was buoyed by our efforts to rebuild the economies of our former enemies, Germany, Japan and Italy. Outstanding political leadership brought about global economic organizations that were to serve the world well for half a century or more. Farms began to modernize, making larger sizes feasible as by then everyone had shifted from horses to tractors. The General Agreement on Tariffs and Trade (GATT) was established, and world trade began to increase dramatically, a stark contrast to what had happened in the 1930s.

Though President Eisenhower presided over a decade of national and international stability in the 1950s, farmers had become dependent on commodity subsidies. Secretary of Agriculture Ezra Taft Benson sought to reduce those subsidies in a major way, but was met by fierce resistance from some of our producer organizations. Hence, not much changed in the 1950s, and there were not many lessons to be learned from that decade or the preceding one. Farmers prospered during wartime, but no one in American agriculture wanted that to be a prerequisite to a healthy farm economy. Farmers were beginning to learn, however, that we could produce far more food than our domestic economy could consume, so we ought to begin to export. We did so but, strangely enough, the GATT was not to focus on agricultural import constraints for another three decades or more.

Risk takers in the late 1940s did well, so that's when farm consolidation really began to occur. It was to continue from then to the present time, far longer than most of us anticipated. The 1960s featured Democratic administrations (Kennedy and Johnson), in contrast to the Republican administration of the prior decade. But farm policy did not change all that much. The pendulum did swing back to a somewhat larger role for government in the U.S. economy, but not much. Secretary of Agriculture Freeman had a stronger belief in markets than many of his Democratic colleagues, and he was also more budget conscious than most. So, the 1960s provided only a slight tilt toward more governmental involvement in and support for agriculture. Exports expanded somewhat, but not much. The Nixon Administration came to power in 1969, and I can recall Secretary of Agriculture Hardin reacting enthusiastically when our ag exports reached $10 billion in 1970. As you know, they were $140 billion in 2011. In 1970 we would never have thought that possible.

But then our agricultural economy exploded, in a spectacular way that none of us would have predicted. This was to be the second golden era for American agriculture.

The Russians entered our grain markets in the early 1970s, and prices skyrocketed. What happened then was closer to our present situation than anything we've ever experienced. Food prices rose, consumer groups picketed the Department of Agriculture, some economists concluded that the Malthusian era had arrived, and politicians demanded a World Food Conference to deal with what had occurred.

All of this geopolitical stir accomplished little. The Russians continued to buy, and our farmers continued to benefit. Farmland prices rose dramatically, as they have recently. Early risk takers were the primary beneficiaries, and their farms are the ones that grew the most. Farmers everywhere bought new tractors, combines, and pickups, and some of them even began to take vacations. That new equipment was also a lot larger than what was traded in.

And then came the 1980s. It felt like the 1930s to farmers who could remember the 1930s. We did not then have dust storms that made noon seem almost like midnight, but most everything else went awry. As was the case in the 1930s, American agriculture learned that it was extremely vulnerable to events totally outside its control. Not only was this true with respect to the domestic economy, but to the global economy as well. We had an over-valued dollar, which put a strain on exports. Our competitors liked that, of course. We had a grain embargo, imposed by the Carter Administration, which caused us to be perceived as an undependable supplier. And on top of that we faced massive agricultural export subsidies in what was then called the European Economic Community. The EEC's Common Agricultural Policy was designed to stimulate production. Not surprisingly, it generated huge surpluses, which the EEC was determined to move into the international marketplace. In essence, the EEC bought market share for a litany of agricultural products. Their market share curve tilted to the vertical. So did ours, but theirs was positive and ours was negative. In addition, farmers here in the United States planted "fence row to fence row" in the late 1970s, so we generated surpluses at the same time as the Europeans. But we stored ours; they dumped theirs on the world market. We also had double digit inflation in the early 1980s, and interest rates reached more than 20 percent. The risk taking farmers of the 1970s who had incurred a heavy debt load were overwhelmed by the economic conditions of the early 1980s. Thousands went into bankruptcy, and the situation was so poignant and compelling that even Hollywood reacted by making at least three major movies focusing on the pain and suffering of farming.

Will the coming decade be more like the 1970s? Or more like the 1980s? That's what this symposium is all about. Not one of us knows, of course. What we do know is that farm balance sheets in 2012 are much stronger than they were in 1981. Whether that will be sufficient to overwhelm the surrounding risks is another matter. We'll not know until the future unfolds.

Government did respond in the mid 1980s, with the most generous farm bill ever enacted by the Congress. If my memory is correct, we had approximately $26 billion in farm subsidies in 1986. That was designed to re-build the confidence of those farmers who survived, and it was a major success in doing so. In addition, the Congress in 1986 passed the most significant tax reform legislation we had seen in many, many years. That helped too, in all sectors of the American economy.

Both the Congress and the Reagan Administration recognized that we also had to boost our presence in the international marketplace. Globalization was on its way, and we had to compete. American farmers and American business were doing their part. At the very time pundits were concluding that America's best days were in the past, our private sector was taking aggressive steps to make sure that did not occur. The pundits were wrong, gloriously wrong, though they'd never admit it, even today.

America's private sector was infinitely more competitive in 1990 than it was in 1980. But, government did its part too. Secretary of the Treasury Baker negotiated the so-called Plaza Agreement, which resulted in a decline of the dollar relative to all major currencies. That helped boost our exports. We launched the Uruguay Round of multilateral trade negotiations, and added the historic U.S.-Canada Free Trade Agreement, the precursor to NAFTA. That opened up additional export markets. And the Congress in 1988 passed the most significant trade bill of the 20th century. That helped too.

The 1980s were an extraordinary decade for U.S. agriculture – nothing but economic travail during the first half of the decade, and then an enormous turnaround in the second half. During my tenure as Secretary of Agriculture the 1990 Farm Bill was enacted, on a bipartisan basis, with a lot of cooperation between the Bush Administration and a Democratically controlled Congress. That bill was much more market oriented than its predecessor, an imperative outcome because the cost of the earlier bill could never have been defended or sustained.

We then had a strong tilt toward free markets in the 1990s, culminating in Freedom to Farm legislation (mid-decade) that was intended to phase out traditional farm subsidies. Farm income in the early 1990s had stabilized from the roller coaster years of the 1980s, and was gradually increasing. U.S. farm exports were doing well too, and we were confident in our international competitiveness. Farmland prices were increasing, but only gradually as incomes increased. Farm consolidation was proceeding as well, but seemingly in an orderly manner. And our non-agricultural sector was doing well too. We were leading the world through a technology revolution, our service industries were growing at a rapid pace, extending their reach throughout the world, and the Clinton Administration was persuading the American public that it had our fiscal policy under control. This wasn't 1910-14, but for most farmers these again were good times.

Each time we get on a pedestal though, something seems to knock us off, or at least give us a bit of a concussion. This time it was a glitch in some of the Asian economies, which threw a scare into the rest of the world and significantly slowed global trade. A half-century earlier that might not have been a major worry, for we were not then much involved in global trade. But this time we were. Trade of all kinds – industrial, agricultural, and services – had grown almost geometrically since World War II, so those Asian glitches were attention-getters for everyone, including us. The global economy went into a bit of a tailspin, and both the Congress and the American public were frightened by what occurred. That led to the 2002 and 2008 Farm Bills, both of which increased governmental involvement in American agriculture to a substantial degree. In particular, both recognized that U.S. agriculture was still exposed to risks beyond its control, and that it needed insurance mechanisms of some nature to deal with that risk.

What has emerged from the farm legislation of this century, and from creative thinking in USDA, is much greater emphasis on crop insurance as the basic mechanism for responding to commodity market risk. Private sector mechanisms, such as futures and options trades, have a role too. These advances, along with the technology that accompanies them, have certainly helped. However, notwithstanding the good work of Congress, USDA, the Chicago Mercantile Exchange and others, not all agricultural risks are insurable today. So, there is still some risk out there, to be managed somehow. And every farmer – or outside investor – paying $15,000/acre for farmland must understand that.

We're now in the third golden era of American agriculture. After absorbing another recession in 2007-2008, thanks to incomprehensible debt leveraging by supposedly intelligent people in the financial sectors of the United States and the European Union, it is "emerging nations" that have led the recovery. And agriculture has been in the forefront. China, with double digit growth rates for many years, has now become the second largest economy in the world, relegating Japan to number three. Long a corn exporter, China has now become a major corn importer, as well as being the world's largest importer of soybeans. India has demonstrated impressive economic growth in recent years, and it too has millions of people who now have the income to afford a better diet. To a lesser degree similar economic conditions are unfolding in a number of other developing countries. That's why we sold $140 billion in agricultural products throughout the world in 2011.

In the past couple of years we have finally experienced a "best of all worlds" experience where population growth and purchasing power have come together in nations that are short on food, thereby creating unprecedented demand for our food exports. For years, we've had steady population growth coupled with fairly steady economic growth here in the United States; that's why we're the world's number one economy. The European Union and Japan have had spurts of impressive economic growth, but population growth has not kept pace, and neither country has been prepared to counter that shortcoming with expanded immigration. Hence, it is only in Asia where a number of countries have recently had impressive spurts of both population growth and expanded incomes. We're the beneficiary of that phenomenon.

Will this continue? Have we finally found that illusive pot of gold at the end of the rainbow? Is this just another blip on the "golden era" screen, or is it a long term phenomenon? Will the challenge of feeding nine billion people in 2050 assure us golden era markets from now until then? And will that imply even higher farmland prices in the U.S. than those which prevail today?

You'll get at least some of those answers in the coming presentations. But in the midst of all this euphoria, permit me to add a few cautionary comments. I'll then close with some reasons for optimism.

As in the 1970s, we again have farmers planting fencerow to fencerow. Some have even found ways to double crop. Our competitors in other countries are doing the same, and for those with the right climate double cropping is no problem at all. Production costs are closely correlated with the price of oil, so when the latter increases they are ratcheted upward. But they do not necessarily decline when the price of oil declines. Monetary policy has been expansive to a degree never before seen in this country, so that huge increase in money supply is likely sometime to become inflationary. Farmland is attractive as a hedge against inflation, but it won't help when production costs rise accordingly. Protectionism is beginning to raise its ugly head in some countries, and must be challenged aggressively by our government.

Perhaps the most worrisome issue of all is our present fiscal situation, which is simply unsustainable. We're running annual deficits at the Federal level beyond anything this country has ever seen, thereby robbing Peter to pay Paul. In this case, Peter is our younger generation, which ought to rebel against what is occurring. Paul is my generation, and we ought to be ashamed of the legacy we're leaving our children and grandchildren. Agriculture will inevitably be affected by this, not just in Farm Bill terms, but in so many other ways. Through most of our history, we in the United States have engendered the respect and admiration of the rest of the world. We need now to be careful not to lose that reputation as a result of shoddy governance. That will require leadership.

Notwithstanding all this travail, I am still an optimist. We have our challenges, but every other major nation in this world has even more. And we have a combination of natural resources, human resources, and entrepreneurial spirit that is unmatched anywhere. We'll soon have a Farm Bill, with more bipartisan support than just about any piece of legislation the Congress has dealt with in ages. It'll feature insurance concepts, and that should please everyone in this room. Though farmers have strong balance sheets, their lenders will insist on the use of risk management techniques, and that's good news for lenders, borrowers, and investors. Interest rates are also incredibly attractive, and likely to remain so, at least for a time.

Beyond that, U.S. farmers are just a lot more sophisticated, productive and efficient than ever before. The days of farmers being labeled "hicks from the sticks" are gone forever. Good riddance! Today their business skills and general management skills often excel those of their urban counterparts, even when those counterparts are CEOs of major companies. Farmers have also become internationalists. They know why exports are critical to their future. They understand that exporting is no longer just a way to rid the domestic market of surpluses; exporting is imperative if American farmers are to achieve long term financial success. Ethanol has enlivened the corn market, but ethanol is not a crutch. And it is not a panacea to all our challenges.

Finally, as we all know so well, it's a volatile world out there. The weather is still unpredictable, and climate change could over time make all of our present economic prognostications worthless. Energy policy is another wild card. Does ethanol have a future? With the amazing technological advances that are now occurring, will natural gas make the U.S. energy independent? And the question that soars above all others, "Will biotechnology and other research breakthroughs permit us to feed nine billion people by 2050?

That is enough to frighten anyone, including farmland investors. But let's also remember that this country has prospered because of its risk takers. We will never wish to become as risk averse as our friends in Western Europe. That's not the American way, and it has never been the modus operandi of U.S. farmers. But we want to be smart about it; we want to assess risk as carefully as we can, and we then want to manage it as skillfully as we can. If our farmers can do that, farmland investments in America will be solidly profitable for many years to come.

Thank you for inviting me to participate in this symposium, good luck with your investment decision making, and let's now take time for a few questions.

General Discussion

Transcript

Moderator: Jason Henderson
Vice President and Omaha Branch Executive
Federal Reserve Bank of Kansas City

Jim Andrew, Andrew Farms, Inc.: Ambassador, I'm Jim Andrew from Iowa. Thank you for your summary of agricultural history. I was in Washington just last week, working on the Farm Bill with the American Soybean Association. One of the things that shocked me is how old I'm getting. I dealt with staffers that have no idea of the past and no appreciation for how we got to where we are at. We got into a discussion on permanent normal trade relations for Russia and the great advantages that has to U.S. agriculture, but nobody could think back or knew what Jackson-Vanik was (the big blocking). How can we integrate historical perspective into the decision-making process without force-feeding it, because I ran into young staffers that have such limited knowledge of what has been done in the past?

Clayton Yeutter: That is a really good question. You see this over and over again, because as you know Washington is typically permeated by youngsters, particularly where political positions are involved. Regrettably, where agriculture is concerned, a lot of those youngsters who are in the Department of Agriculture dealing with issues just like this have no background in agriculture.

This White House – and you can discount from my Republican political biases here – dumped a lot of nonagriculturalists into agriculture into the Department of Agriculture when it first came in. They are still there. They still don't know much about agriculture and it shows up on issues like this, particularly when you get a bunch of youngsters over on Capitol Hill who are the same way. They just came out of law school somewhere and couldn't find a job with a law firm like mine, so they go to work on Capitol Hill.

You are absolutely right. Nobody knows about Jackson-Vanik. There is a lot of opposition to changing Jackson-Vanik in order for us to take advantage of Russia having already come into the World Trade Organization. But very few people understand that, including members of Congress. It's really hard to do. And the fact is to make sure everybody here understands it.

The Russians are in the World Trade Organization. It isn't a matter of keeping them out. A lot of people think if we uphold Jackson-Vanik that will keep the Russians out of the WTO. That's not the case; they are in. The question is whether we get the benefits that accrue to members of the World Trade Organization by having Russia in, just as we did when China came in. The fact is we won't, unless we repeal Jackson-Vanik. We are shooting ourselves in the foot by keeping Jackson-Vanik in place.

But you are so right, most people don't realize that. It takes some leadership: It takes leadership on the Hill and it takes leadership in the USDA and in the White House to get an adequate level of understanding on topics like this. But, if you have the USDA sitting on its hands doing essentially nothing, you have the White House sitting on its hands doing essentially nothing waiting for the Congress to act, then you get paralysis.

Larry Dreiling, High Plains Journal: Hi, Mr. Secretary. Larry Dreiling, High Plains Journal. What are you thinking of the two Farm Bills that have been presented to us? Do you think we should be going Senate? Do you think we should be going House? Or, should we split the baby, shall we say?

Clayton Yeutter: Okay, there isn't a heck of a lot of difference between those two Farm Bills. We don't really have much in the way of subsidy reductions in those bills. Everybody talks about there being $20 billion or $30 billion over ten years, but the fact is if you add up the pluses and minuses it doesn't come out to be that much. When you consider the budget for ten years is like $1 trillion, so when you are taking about $20 billion on a trillion, that's not exactly solving the federal budget deficit on the backs of American farmers.

The fact is both bills treat agriculture awfully well. I think the farm organizations working in Washington understand that full well. Their problem is – can you get either one of them through the Congress?

As I said, there is not a lot of difference. The two sides had gotten together during the Super Committee debates last fall. They basically had a Farm Bill written then, but then the Super Committee fell apart. All they have really done since then is pretty much is pull that material back together again, send it through the Ag Committees, and have them come up to the floor of the House. The Senate bill went through the Senate in pretty good shape and now it is on the House side. There it is more difficult for a lot of reasons, including the fact that some of the House leadership doesn't care too much some of the content of that legislation. Some of the House leadership, as Mike Boehlje will tell you, is probably not too enthused about dealing with this issue at all between now and the election, because you are involved in some cutbacks in the food programs and that's not exactly politically beneficial in an election year.

The question is whether there is any merit to the House Republican leadership of even bringing those bills to the floor for a vote before the election. Then the question is, since the legislation expires September 30, what do you do? Do you have an extension instead? If so, do you run that extension just through December, so that you catch the lame-duck period and get that Farm Bill done through the lame-duck period or do you move a little further beyond and take your chances on the legislation in the new Congress? That's pretty high risk too, because you don't know who is going to be in the new Congress and you have a fiscal cliff coming up that somebody has to deal with.

The other part of the problem here is that they are running out of time. When I looked a day or two ago, there are only 18 legislative days left in the House; 18 legislative days are not very many to get this done. There are some real dilemmas there for farm organizations and for the Congress. I wouldn't even want to make a prediction today as to whether that legislation will make it through by September 30. The conventional wisdom would say the odds are against that happening. If that's the case, there has to be an extension of some sort.

Everybody is playing the odds. This is a little bit about the risks I was talking about earlier on farmland where there are a lot of political risks out there on the Farm Bill too. There are all kinds of uncertain factors, many of which are outside the control of the agricultural committees. That's too short an answer to a very complex question, but you do have Mike Boehlje and other people here today who can explain that in the rest of your sessions.

Brian Klippenstein, Deputy Chief of Staff for Senator Blunt: Ambassador Yeutter, my name is Brian Klippenstein. I work for Senator Blunt. One thing you didn't speak about in assessing the stability of the current golden era is diversity -- where it was, what it has become, and the role technology will play in the future -- and speaking to that.

Clayton Yeutter: Sure. I should have added a comment about technology. We are much further down the road in technology than we were years ago. In many respects, that helps a lot. I mentioned we were dealing with horses back in 1910 to 1914. Not only are we mechanized, a few years from now we may not have anybody driving those tractors going up and down the fields. Doing them by remote control is not very far off and is already being practiced in some areas.

So technology continues to expand and, in an international competitive sense, we are still out ahead of basically everybody else in the world in technology. Now there are spots here and there in Brazil and elsewhere where that is not the case, but if you look at the total picture globally that is still one of the big advantages of the United States. We know how to do technology. We've done it very well, biotechnology being a big piece of that. I did comment on that. But there is a lot of other technology out there too in which we have had a leadership position for a long period of time and need to sustain that.

The comment I would put there, however, as a word of caution is the only way you get technology is through research. And that means research both by the private sector – we have a lot of agribusiness companies that are doing a wonderful job on research these days –but in the public sector as well.

One of the worries whenever we get into a budget crisis like we face in Washington these days is that one of the first things cut back is research, because it is a discretionary item. It loses out to the funding that is not discretionary, meaning Medicare, Medicaid, Social Security, and the other so-called entitlement programs. There is a real risk that agricultural research will get caught up in that dilemma and we'll all pay the price in the future. So we have to try to keep that from happening and provide incentives for the private sector to invest as well.

Finally, in my personal judgment, the fundamental reason we are struggling so hard economically in this country today is that people are not investing. There is a lot of money around. Those of you who are investors know this. You are contemplating putting a bunch of that money into farmland. That is fine, but there are a lot of other places in which that money could be invested too. But people are sitting on it. They are being very, very cautious about investing.

We are not going to get a nice boost in consumption spending anytime soon. So, if we are going to get the economy rolling, we need business investment that we are simply not getting today. Research is a part of that picture, as well. It counts in terms of technology.

I will just give you one self-serving example, if I may. We'll leave with that. Probably the single most important bilateral negotiation I conducted during my tenure in government was on semiconductors with Japan. Semiconductors are high technology. They are in everything, as you know. They are the heart of the high-technology revolution – if we can call it that – of the 1990s and on into this century.

When I became United States Trade Representative, the U.S. semiconductor industry was almost dead. It had one foot in the grave and the other one just about going in, all due – in my judgment at least – to predatory practices on the part of Japanese semiconductor companies. Japanese would probably argue to the contrary, but I was persuaded that we had to do something about that.

We did, through a very controversial negotiation with Japan. As a result, we cut them off at the pass with their predatory practices in semiconductors. We eventually had to protect the U.S. position there by retaliating against Japan. It was the first time ever in the post-World War II period that we retaliated against Japan on trade issues. But it solved the problem. Today, we have an extremely healthy semiconductor sector. The Japanese semiconductor sector is not nearly as healthy as is ours. That negotiation has been worth untold hundreds of billions, if not trillions, of dollars to the U.S. economy.

That is what technology is all about. Think where we would be today had we not done what we did then, which goes back more than 20 years ago. Think what that would have done to our international competitiveness in the entire high-tech arena had we lost the U.S. semiconductor industry. It just indicates how important technology is and how hard we have to work in the United States to make sure we preserve that technological advantage.

I had better get out of here, Jason. The floor is yours. Thank you. [applause]

Jason Henderson: Thank you, Ambassador Yeutter, for setting the stage for the rest of our symposium. You've laid a solid foundation for us to think about, especially from the Federal Reserve standpoint. In both monetary policy and supervision and regulation, we are in the risk management business. For us, it is always a good framework and start of discussion.